

drain of gold and an abundance of uncovered paper preceded the crisis of that year. More or less the same circumstances conspired once again in 1844. Money was found to be cheap all over the country and a gradual reduction of the rate of interest on a part of the national debt was announced. And this time the railways absorbed a huge amount of capital, dislocating the export industries by increasing imports more rapidly than exports and thinning the Bank of England reserves. This was the picture prominent among the events preceding the crisis of 1847 which was also immediately followed by the gold rush. Before the crisis of 1866 was observed again an abundant quantity of capital finding employment with an accelerated speed in joint stock concerns, after the extension of limited liability to any business body that wanted it by the act of 1862. Once again the crisis of 1873 followed a heavy demand on the Bank of England to feed continental enterprises, especially German. This took place against the background of a picture of abundant capital, painted by the French transmissions which remained in England during the war. Such were the aspects of the material situation in England during the nineteenth century which begot the over-savings explanations of the crisis, propagated by a series of Victorian economists.¹ It was contended by Fullarton in 1844 that "the amount of capital seeking productive investment accumulates in ordinary times with a rapidity greatly out of proportion to the increase of the means of advantageously employing it."² He analysed that the investor who was scrupulous about the security of investments found that these 'secure investments,' usually funded debts of government, went on yielding decreasing incomes due to falling interest rates. So in the interests of

¹ See "The Victorians and Investment," by A. K. Cairncross, in *Economic History*, February 1936, for a good summary.

² *Ibid.*

THE
STRUCTURAL BASIS
OF
INDIAN ECONOMY

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OF
INDIAN ECONOMY

A SURVEY IN INTERPRETATION

BY

H. VENKATASUBBIAH

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WOKING

IN MEMORIAM
ŚĀRADĀ

Learning without thought is labour lost;
thought without learning is perilous.

CONFUCIUS

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INTRODUCTORY: THE BACKGROUND OF ECONOMIC ACTIVITY

The theories of social development are many, and it is difficult to isolate original ones in this age of endless eclecticism. Bernstein regarded eclecticism as 'the rebellion of sober men against the tendency inherent in every doctrine to fetter thought.' We can imagine how many rebellions it makes if the total number of doctrines is multiplied by the number of 'sober' reasoning men. We shall probably find on vivisection that every theory is eclectically bent but those arising as philosophies from the results of experiments in the physical and exact sciences have a better and more scientific claim to originality. The recent controversies concerning the philosophy of development in physical science,—the vehement pleas of the determinists, the free-willers and the dialectical materialists—have helped considerably to clarify the thoughts concerning the theories of development in social science also. But whatever the theory we adhere to, the problem is very much more complicated in the latter than in the former. It is but a sharp and standard experiment to say that the behaviour of the atom particles is not exactly predictable, but it requires sifting of thousands of years' history to say that there has not been a mechanical causal continuity in social development, with the inability to standardize in addition. "Generalizations in physical science are usually based on controlled observations

which are described so explicitly that he who objects may repeat. Students of social science may look at the same phenomena and draw wholly divergent conclusions, which are tolerated as legitimate expressions of individual judgement."¹ Yet it has been done, and done with a scientific precision which compares favourably with that of the atom splitter, by Professor Toynbee, whose conclusions have been hailed by the Muscovites as proving dialectical materialism. "Growth to him is a discontinuous process, a sequence of disequilibria and states of balance; of old problems solved and of new problems rising on the ruins of old solutions. Yet within this series of alternating phases there is a constant progression and a direction. The reciprocal motions of a growing civilization all lead to higher forms of life and culture."² Such is also the general nature of Indian economic development. The progressive movements therein have included contradictions, many of them the results of external impetus. We were swayed to and fro as much because of developments within India as of those occurring outside. It was an impact of world forces with our own that pushed us forward or backward as the case might be. Some of these helpless and utterly involuntary movements under the play of external magnets were a great eye-opener to many who had boasted about India's tradition of philosophic detachment. They were surprised to find that much of their authority on their development had either been paralysed or made dependent on a proportion of an alien one. It became clearer that the history of nature divided the world into different geographical units, but its consequence, the history of society, divided it between different historical forces; and

¹ *Methods in Social Science*, Ed. by S. A. Rice (1931), Editor's Introduction, p. 3.

² M. Postan in *The Sociological Review*, January 1936, pp. 51-52.

India inevitably came under this division. The new economic conditions in which we found ourselves emerged not merely from preceding economic conditions, much less from such conditions in India alone, but out of a comprehensive situation covering all categories of conditions all over the world. The units of change in economic growth had on them the effects of internal as well as external historical forces. Ideas or institutions, they were the products of history.

The background of economic activity is painted by some of these units that move in a dialectical process of growth. First among them comes the thought process of the Indian masses. From times immemorial generations of men (and women more than men) have developed a spiritual attitude of mind, and what is more, great care is taken to preserve this outlook from generation to generation as a national heritage. Repetition is no doubt boring, but it is true that to the Hindu this world is unreal. It is only a means to an end. The end is exoneration from the punishment of re-birth. He is in this world because of his sins in the past birth. Thus being ushered into our silly globe by the judgement of the almighty, but much against his own will, his acts here are aimed at mitigating the sins he has committed at some other time he is not aware of, but which are obvious. If any surplus of 'good' acts is left over after the complete mitigation of his past sins it will serve to secure him the most coveted privilege—a permanent seat in heaven. This attitude belongs not to the masses only but to the middle, upper and educated classes as well. If it is held that education is not enlightenment, this is most true in India, where in the majority of cases books are read and understood apart from life, and fresh and radical thoughts are kept at a respectable distance from current habits. In spite of the constant consciousness of the material environmental cause-

and-effect, the idea of divine predetermination reigns supreme in the Indian mind: It is no doubt true that man also wields the hammer; but the shape rests ultimately with God in all cases. Where man has succeeded in beating out his design, it is simply a coincidence of God's and his intentions. Added to such an outlook is the effective clutch of custom. "The strength of custom, the custom of the tribe, lies," says John Murphy, ". . . in its adaptation to a stage of mental development, in which the effort of action is preferred to the more exacting effort of thought, especially if co-ordinative and prolonged. Its powerful appeal consists in its evasion, by practical solution of life's problems, of the strain which reflection imposes upon the ill-developed co-ordinative powers of the savage brain. The result is the formation of a system of belief and practice which so dominates a great portion of mankind in all ages down to the present, and is in its own way so deeply unified, that it deserves to be called the Integration of Custom. . . . Its supreme disadvantage is that the mental effort to break through tribal traditions and age-long practices is as difficult as for the individual to conquer ingrained personal habits, and indeed much more so; for the collective consciousness . . . with the social instincts in the heart of it, like the iron in reinforced concrete, is extremely resistant to alteration. The tendency to rest in what has proved safe is stronger by far than the adventurous impulse to launch out upon the new and unknown."¹ Though Murphy said this mainly of primitive society the same social instinct is prevalent in India even to-day. Thus, Indian life is a great frustration from birth to death, and the rebel has to fight life's battle on very many more fronts than the westerner. These two influences—outlook and custom, while being basic in

¹ *Primitive Man—His Essential Quest* (1927), p. 82.

nature, have only the most feeble pressure on economic growth. As affecting the latter they are reflected in the Indian instinct to adopt only the minimum change necessary for self-preservation.

Self-preservation in India is not such a complex matter as in countries more advanced in civilization. The preponderant unit of social organization being the village, the minimum change these village communities have to adopt to exist is too inconsiderable to press economic growth to rapidity. As Marx said of them, "they restrained the human mind within the smallest possible compass, . . . depriving it of all grandeur and historical energies. . . . They transformed a self-developing social state into never-changing natural destiny."¹ These village communities, another unit of change in growth, exhibit in their history an attempt at self-perpetuation. In ancient India they were the rich and vital parts in the institutional structure. The enlightened despots that ruled sought to clean and keep in good order these screws in the machinery of the nation. In medieval India sultans and emperors came and went at Delhi, but the form and content of the villages remained unaltered by the turmoils, though perhaps they were slightly shaken now and then. The position remains substantially the same in modern India in spite of the fact that their original functional importance has almost disappeared. Through the ages they were neither disappearing nor growing civilized. This immobile persistency is explained by the process of their own internal growth. They did not disappear because of a twofold struggle. While they were being governed by the conditions of nature surrounding them, they were at the same time continuously reacting upon them and transforming them into their own product. At the same time they

¹ Ed. by E. Burns, *A Handbook of Marxism* (1934), pp. 186-187.

reacted again to the environmental limitations as a whole, in the process transforming their own structure as it developed. They did not grow civilized because this environment, which they were shaping and getting shaped to, remained practically constant in its contents which were economic. What was required to compel civilization was a revolution in the environmental contents. The first shock to this environment came from the industrial revolution in the west. Through the rapid growth of communications and British rule in India, the products of the revolution entered the villages and destroyed partly their aloofness. The economic imperialism of Britain curtailed largely the functional importance of these village communities "by blowing up their economical bases (Marx)."¹ But this was only half a revolution in the environmental contents. A revolution is complete only when another thing is put in the place of the thing blown up. The British destroyed the economic bases of these village communities, and quite welcomely too, but left them there to float in the air without giving them any other base either economically or otherwise. The weapons by which these communities could stand in opposition to nature and force changes in their own structure were purely economic. So only by the substitution of stronger economic weapons for weaker ones could they be made to grow civilized. But this isolation from city civilization in which the British kept them prevented such a substitution. They were taught to become only the admirers and consumers of the products of the new machine age but not to be direct participants in it. Having been robbed of even the feeble weapons,

¹ Marx calls this "the greatest and, to speak the truth, the only *social* revolution ever heard of in Asia" (*A Handbook of Marxism*, p. 186). It is difficult to make out what exactly he means by 'social revolution' in this case.

such as for example the village industries, they possessed, their activity became only a passive one, and this activity being pegged to the industrial city, they suffered when city capitalism suffered but gained little when it prospered. This aloofness from active industrial civilization, on the one hand makes this unit of change, the village community, a checking force on economic growth, and on the other causes the progressive deterioration of the unit itself.

After these two general units of change, the mental make-up and the social groupings, come the particular ones, namely, the economic institutions of landlordism and industrial capitalism. These two institutions which represent the primary economic activity—production, reflect through their present stage of development the degree of general economic maturity. By the very nature of the systems of land tenure, the *Zemindari* and the *Ryotwari*, the progress or otherwise of Indian agriculture is synonymous with the activities of the landlords in the agricultural economy.¹ The landlord element everywhere is notorious for its fossilization. On account of this its influence on economic growth is highly reactionary, possessing as it does to a high degree what may be styled the preservationist mentality. In countries where agriculture has progressed much, it has involved a breaking through of this barrier by the external forces that sought progress. One of these forces has been the state. As industrialism and commercialism expanded, the state began to represent these dominant interests, and a progressive agriculture would bring these interests prosperity. But in India the state being a branch of an empire, standing for dominant interests which are alien and not local, it is not, in its historical role, interested in

¹ The latter system of land tenure, though in name it assumes peasant ownership of land, has grown to acquire the characteristics of the former.

the progress of Indian agriculture. So the historical urge for it to break through landlordism is absent.¹ The other force has been the peasantry itself. If the peasantry is to count in this task it will have to acquire the class characteristics of the industrial wage workers, which could happen only when agriculture becomes progressively industrialized. Because we observe in our industrial civilization that, as capitalism grows, the cohesion of the dispossessed labour army gets more and more powerful, and consequently it is able to force reforms by way of concession. The domestic-economy stage in which Indian agriculture has remained rules out any possibility of this peasantry force operating. Both these forces being inoperative, the progressive reforms (as distinguished from ameliorative measures) if any, should have been effected, or have to be, only through the free will of the landlords.

It would be relevant then to peep into the mentality of this class. There is a great deal of difference between the city magnate and the rural lord, at least in India if not anywhere else. The preservationist behaviour of the former is more a matter of policy, planned after an intelligent perception of conditions around him and the dangers he would be exposed to if he chose to be liberal; whereas that of the latter is a relic of the feudal past, an attempt to preserve preservationism, involving no thought whatsoever. But the

¹ On the other hand it is by its nature interested in upholding it. This is expressed, for example, in a despatch of August 2, 1789, to the Court of Directors by Lord Cornwallis, who, writing on the Permanent Settlement plan, observed: ". . . independent of all other considerations, I can assure you that it will be of the utmost importance for promoting the said interests of the Company, . . . that a regular gradation of rank may be supported, which is nowhere more necessary than in this country for preserving order in civil society." (Quoted by Anonymous, *An Inquiry into the Expediency of Applying the Principles of Colonial Policy to the Government of India* (1822), p. 185.)

person who is the worse for it is the ryot,* for ignorance is a stouter opponent than diplomacy. But even in his ignorance the landlord has an advantage over the industrialist, because the cultivator himself is ignorant compared to the factory worker, who, living amidst modern civilization, is more class conscious. This the landlord exploits to pass off his ignorance as diplomacy; and in this case ignorant diplomacy is more harmful and reactionary than enlightened would be. It is well recognized in the progressively thinking circles in India that the layers of landlord ignorance are too thick even to admit a percolation of suggestions for reform. People belonging to all shades of thought have advised them, and not only socialists but the Government itself has hinted to them the dangers they would be dragged into if they remained static: "The health, happiness and prosperity of your tenants," Sir Robert Bell, a former acting Governor of Bombay, is reported to have said,¹ "is one of the most important responsibilities which your status imposes upon you. A contented peasantry is the surest safeguard against attacks on the existing system of landholding and land tenure." But it would be taking optimism to the wrong place to expect that such advice would be heeded by the landlords, except in a case or two in a thousand. They have allowed their minds to become preoccupied with hesitations imbibed from ignorance. They are keen on safeguarding their own position and not on improving the conditions of either the peasantry or production. This is no uncharitable or partisan allegation against them, for such a mentality burst out from them during their behaviour towards the Simon Commission. The Bihar

* The actual tiller of the soil.

¹ Addressing the Durbar of Deccan Sardars, at Poona on August 6, 1936.

Landholders Association in its memorandum candidly confessed that its members belong to a class "which is conservative in outlook and sober in thought."¹ It is not difficult for us to imagine what the sober thought of a conservative can do for an already backward agricultural economy. Another body chose to be more serious: "To counter Bolshevism" is one of the objects of the Punjab zemindars, according to the memorandum they submitted to the commission through their association.² It would be hard for any clear-headed student of political affairs to imagine the existence of a serious deep red movement in India in 1928, or prior to that, or as a matter of fact even now. In the same document they deplored the fact that the reins of the Indian Government were in the hands of an urban oligarchy, out of touch with the problems of the rural elements. They no doubt spoke the truth; but judging from the tone of their representation, what they resented was not so much the Government's neglect of the rural masses as the powers vested in this urban oligarchy to check their autocracy. They seemed to suggest that they preferred a rural oligarchy with powers to deal with the peasant population as it liked. So too, the Bihar landholders in their memorandum expressed deep concern at any corrosion into their class freedom. "We are not so unimaginative as to complain of the inevitable," they said (pleading for special constituencies), "but we must raise our voice of protest against an arrangement which offers inducement in the path of zemindar members of the legislature to shout with the mob in their political exigencies. The zemindars form the centre of political gravity in the country. Once their posi-

¹ Indian Statutory Commission, Vol. XVI, *Selections from Memoranda and Oral Evidence by Non-officials*, Part I (1930), p. 467.

² *Ibid.*, p. 191.

tion is disturbed Government will be courting serious consequences. . . . If the country is to be saved from anarchy and chaos, the zemindars must be encouraged to take part in public life by being given an adequate representation of their community in the legislature and government of the country."¹

Their attitude is reminiscent of the essence of physiocracy, namely, landlord despotism. It is more or less the same semi-feudal condition as in France that has created this attitude.² But it is not true, because of this analogy, that the consequence of physiocracy,—non-interventionism, will produce in India the same agrarian prosperity as it did in the countries where non-intervention followed. The growth of world economy is the clue. Capitalism then being still in infant stages the right to property was not questioned. Intervention took the form of restrictions in the way of agrarian prosperity, and as such the revolt of the landlords against intervention only expressed their desire to make agriculture prosperous. But with the growth of capitalism to its present forms intervention takes the form of inroads into the right to property. It is so particularly in India, because agrarian prosperity, to the extent of its becoming a constituent part of the present world economy, cannot be brought about without radical reforms in the existing systems of land tenure. So in the Indian landlords' attitude, while the natural desire to defend property is expressed, the corollary, that there cannot be any agrarian prosperity even if they desired it, also follows.

It will be explained in Chapter IV, through an outline of the historical circumstances, that industrial capitalism in India

¹ Indian Statutory Commission, Vol. XVI, *Selections from Memoranda and Oral Evidence by Non-officials*, Part I (1930), p. 472.

² See H. J. Laski, *The Rise of European Liberalism* (1936), pp. 187-188.

is at present immature and that it is destined to remain so unless its whole organizational structure is radically changed. This immaturity, while being itself the product of history, reacts in turn on economic growth. The index of the stage of the growth of industrial capitalism is its internal structure. The former is reflected in the latter. Its internal structure will be seen here to find out the role of the capitalist; because, as we shall see, upon the role of this class Indian industry is basically dependent, and the institution of industrial capitalism being a unit in economic growth, the role of the capitalist represents the force of industry on economic growth.

The pioneer capitalists in Indian industry were foreigners. They combined themselves for purposes of industrial promotion and management to form what is known as the Managing Agency system.¹ In due course of time this system drew the Indian capitalists also into its membership. It is no doubt true that this system of industrial organization is peculiar to India. But looking at it through the relevant perspective, namely, the evolution of capitalism, will make it clear that there is nothing in it to make it another east-of-Suez curiosity, as it is usually depicted to be. The system consists simply of groups of capitalists. Their motive, as that of the members of their class in all countries, is profit-making. All the activities of this class in the industrial economy represent the *modus operandi* for achieving this motive. The various 'peculiar' characteristics of the managing agency system represent nothing but the adaptations which this class has brought about in the *modus operandi* to suit application to Indian conditions. These

¹ The first systematic and the best existing treatment of the Managing Agency system is by Dr. P. S. Lokanathan in his book, *Industrial Organization in India* (1935).

capitalists of the managing agency system had to originate an industrial economy in India. They had to draw money, in addition to their own, from the native sources by inspiring confidence in the investing public, and act as technical agents to build up industries. But such and other adaptations did not change their class function as financiers. On the other hand as financiers they have grown to occupy the key position in Indian capitalism. In the west, with the growth of joint stock enterprise the individual entrepreneur went and returned as the financier, and it is significant that in India under the same conditions the capitalist never underwent any such change of cloak. The spread of joint stock enterprise within an imperial economy could never be a force on the function of the capitalist who was a financier even before that spread. He continued to combine within himself the financier and the entrepreneur.

This dual hold of the capitalists, as managing agents, on the industry of the country is evident on an examination of the productive relations in the industrial joint stock enterprise. The diagram on page 30 is intended to convey an idea of it.

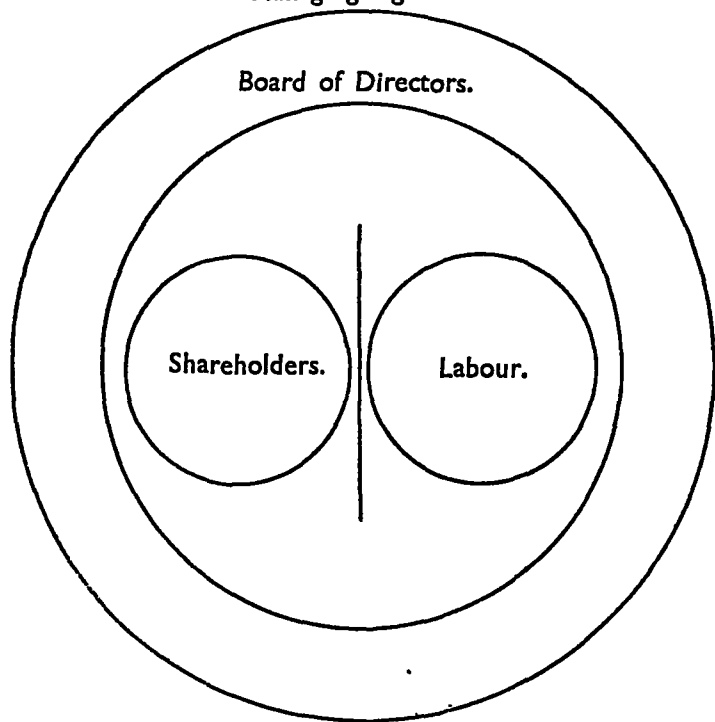
That is how it is working in practice apart from the several acts¹ that have been passed from time to time relating to the joint stock companies which, as far as the productive relations are concerned, have left no effect. As is seen in the diagram, industry is eminently the managing agents' sphere. The board of directors is only a nominal conformity, in most cases a creation and satellite of the managing agents and in the others almost identical with them. There is very little distance separating both. So the

¹ Contained in the consolidating and amending Act VII of 1913, as modified by the clauses added in 1914.

workers and shareholders¹ come under the managing agents almost directly. They have no voice in industry, and further they are divided and ruled. Neither has a voice in the affairs of the other.

This character of the productive relations has remained

Managing Agents.



undisturbed. But through the latest amending Companies Act (of 1936) the Government of India claims to have

¹ The managing agents and members of the board of directors are also shareholders; but in the diagram the shareholders' circle represents the class of those who have not entered the other two classes. This entry they have not been able to seek necessarily because of their lack of financial power. So this circle stands for the class of small 'retail' investors.

'controlled' the managing agent. Though its working has not yet been tested it is clear that it cannot, by virtue of its fundamental characteristic, change the productive relations. Its fundamental characteristic has left the managing agent's position as the financier-cum-entrepreneur untouched. It has sought to make the managing agent more responsible in his other aspects. For example, his remuneration, his liberty to enter into contracts, his relations with other kinds of business and his tenure of office have all been put down in definite terms. But as long as the state does not replace the managing agent as the financier of industry he can never be 'controlled'; not even if the system itself were abolished, because, as the Government itself confessed in the Indian (Central) Legislative Assembly during the debates on the bill, industrial development depends on the very people who constitute the managing agency partnerships. By exploiting his financial indispensability the managing agent, in practice, can make ineffectual even the checks to his other activities stated above.

So the force of industry on economic growth has been hitherto what these groups of capitalists have done in the interests of their profit motive. They work or do not work, develop or do not develop, the industrial potentialities of the country according to the position of the needle on the profit meter. It is obvious then that this force has been progressively reactionary, and is destined to be so, since 'profit' in the capitalist economy is progressively in question. If landlordism has not been a force at all on economic growth, industrial capitalism has been one which is purely exploitive.

The last unit of change in economic growth considered here is the nature of the role of the state in the economic life of the community. With the growth of industrialism

and with it of the capitalist state for its service *laissez-faire* became defunct. The state began to render the services for which it was evolved by industrialism. As along with this the nature of capitalist productive relations created a dispossessed class, with a historical class consciousness antagonistic to that of the state representing the possessing class, it had to shield capitalism against this force. This meant the formulation of certain national economic policies which represent no such big things as international diplomacy, enlightenment, or national welfare, but simply the price paid by the capitalist state to postpone its ejection from office. If this is true of the capitalist state it is much more true of the imperial, because an imperial territory itself represents the highest of such prices. So the economic policies formulated by the Government of India cannot be anything else but such. But there is one difference: The sovereign capitalist state at home has to pay such a price only to the proletarian opposition; whereas in its imperial territory it must attempt to buy off the opposition of both the proletariat and the vested interests. This it has to do because the imperial territory has a state not evolved out of local capitalism but branched off the home one. The contradictions between economic welfare and imperial hold expressed themselves in India, not merely in the 'agitations' of labour but also in the protests of capitalists at the head of chambers of commerce and in the councils. But the policies that have followed are the results of the bargain with only the latter. There was no need for the state to deal with the former because, as might be naturally expected, the Indian capitalists, having got what they wanted, prevented such a deal lest it should undermine their position. So when the Government of India's economic policies are attacked by the capitalists themselves, as is many times done,

as being 'anti-national,' they are attacking the results of their own bargain. Nothing tangible comes out of it except the proof that they are incurable neurotics.

Our economic policies would have been perhaps really more 'national' if they had come to us direct from our rulers and independent of the Indian capitalists. But it was not so for reasons best stated by John Stuart Mill: "The positive evils and dangers of the representative, as of every other form of government," he wrote, "may be reduced to two heads: first, general ignorance and incapacity, or, to speak more moderately, insufficient mental qualifications, in the controlling body; secondly, the danger of its being under the influence of interests not identical with the general welfare of the community."¹ He applied this to the relations between England and India when, at the close of his treatise on Representative Government (about 1861), he pleaded for "a much more profound study of Indian experience, and of the conditions of Indian government, than either English politicians, or those who supply the English public with opinions, have hitherto shown any willingness to undertake."² The fact that this studied and considered reflection by Mill came after he had handled the files at the India Office for three decades adds greater weight to it. It is acknowledged even in moderate circles in India that to the present day this lack of understanding exists, and the economic policies of the Government of India are also caught within its orbit.

The detailed criticisms levelled against the administration for its policy concerning Indian economic affairs differ according to the angle chosen, the particular problem affected and the intensity of the consequent effects. There

¹ *Utilitarianism, On Liberty and Representative Government* (Everyman's Library edition, 1929), p. 243.

² *Ibid.*, p. 393.

are the two extremes, namely, that the policy of the Government of India has been definitely anti-Indian and pro-British; and that it has been one of absolute inactivity where activity was inevitably essential. But the bulk of its criticized policies come under a middle category enunciated even as far back as 1854. "It cannot be too fully borne in mind," wrote one J. B. Norton of Madras, "that the charge against the Indian Government is not that it has done *nothing*; (it has indeed done much; and let its just meed of praise be awarded); *but that it has left so much undone*; that the little, comparatively speaking, which has been effected, has only been attempted after the most unreasonable delay and almost upon compulsion. . . ."¹ This Englishman has put precisely a moderate verdict which was and perhaps is accepted by all accustomed to think. There are quite a good number of governmental activities falling in the two extreme categories stated above. But a rigorous classification is not easy, since in the pursuit of economic policies the Government has shown little method. In general, these policies are intermingled. When the affairs in a certain field are bad it is the favourite practice of the state to seek the remedy in fields other than that particular one. This is quite analogous to the osteopaths treating an abdominal pain by applying plaster to the spine. In this way, taxation, public expenditure, the currency system, tariff and, not infrequently, political considerations, are all invoked irrelevantly to help one another. Among the activities of the state in the economic life the part played by public finance in India is both important and original. It is the more so because public finance stands on a different plane among the economic policies of a state. Raising and breaking tariff walls, see-sawing with the exchanges, signing and scrapping

¹ A Letter to Robert Lowe from John Bruce Norton (1854), p. 225.

agreements, etc., represent the shield and the sword in the hands of a country but not the pen. A country can at best, by these instruments, either defend its economic system against deterioration or offend that of others. Or if the system has already deteriorated it can attempt through these to make up the deficiency. And here is apt to appear the illusion that some aspects of the system are being 'built up.' They are not. They are only being salvaged. These instruments can never build up any economic system. Public finance, if sanely handled, is the only economic activity in a capitalist economy which can hope to build up some parts of the economic system. But anyway such a procedure is the last resort of the sovereign capitalist state in its attempt to buy off the proletarian opposition. At this task the imperial branch of the home sovereign state had a clear advantage. It had no need to try public finance in this sphere; because the capitalist opposition in India, having sold themselves to join the imperial state by accepting tariff changes, currency manipulations, commercial agreements etc., in payment, prevented the state from interfering with their income and spending it liberally on industry and agriculture. The landlord element, growing progressively richer through the system of land tenure, was particularly interested in preventing such an interference from the state.¹ It is thus

¹ Cf. S. Vere Pearson, *The Growth and Distribution of Population* (1935), pp. 91-92: "Unfortunately for a continuance of prosperity in India and a continuance of a satisfactory distribution of a contented populace, before long 'a new factor, or social element never before seen or comprehended in India, made its appearance. That is the landlord, who could let his land to a worker and, after paying the revenue demand, still enjoy a surplus rental without working. This class . . . has done what in every other country it has done and would always do—it has induced the Government . . . to whittle down and surrender the right to apply the true principles' (J. G. H. Anderson, *Indian Land Revenue Systems*, 1929) of a sound land revenue system. Together with this mistake

that Indian public finance has developed its extremes— income from the poor, expenditure on the state. So when this public finance is invoked by the state for purposes of 'nation building,' two characteristics stand out. Firstly, it is done at the will of the state, purely as an act of benevolence; there has not yet been that historical force of compulsion. Secondly, the demand necessarily falls on the income of the poor; for the expenditure on the state *cannot* be touched—no permission from the head-office to do it; and the capitalists *will not* be touched—they may walk into the opposition again.¹ The result of nation building through

another one was made, namely, through the governments assuming that rental values would not vary for long periods, the valuations on which the land revenue assessments were based were not made sufficiently often. Thirty years was fixed as the period. Not only so, but through the influence of a variety of factors producing fluctuations in land values which were not foreseen, but which on the whole tended usually to be ever upward, the landlords came to gain at the expense of land users and of public administration. Hence, through this increase of rentals due to increase of population and of facilities of production and exchange, which increase did not flow into the Government's coffers, there arose an ever-increasing margin going into the landlords' pockets, who consequently grew more and more powerful. Another consequence was that the public services, all those reforms which otherwise might have found money to finance them (education, sanitation, better communications, etc.), were starved."

Cf. also, *Report of the Indian Taxation Enquiry Committee, 1924-1925*, Chapter IV, para. 96, and *Report of the Indian Statutory Commission, 1930*, Vol. II (Recommendations), para. 255,—'The Land Revenue.'

¹ Some of the taxes that fall on the poor originated in the need to make up the loss due to the bargain with the zemindars. In a revenue letter to Bengal, dated January 15, 1812, the Court of Directors refer to "the hopes which were entertained at the period of the introduction of the Permanent Settlement into Bengal, of Government being able to compensate itself for the sacrifice which it made in fixing to perpetuity the maximum of its claim upon the land, by taxation on other objects . . ." (*Selection of Papers from the Records at the East India House*, Vol. I (1820), p. 366). The 'other objects' were at the time salt and country liquor.

such a process is quite ineffective. Tax the ryot directly and indirectly and spend a small fraction of the proceeds on agriculture! Such is the essential of Indian public finance.

It is observed then, that leaving aside the negative media, even the positive medium of help to the economic life has failed to exert any pressure towards progress. And so too it has failed to be of any help in making up the deficiencies in other units as forces on growth.

The interaction of all these units goes to explain what India is to-day economically. The study of her economic activities, whether historical or analytical, has to be made against the background of this picture.

In the structure of the national economy of a country, that part of it which concerns the primary economic activity, namely, the production of goods, may be called basic. For the other constituents of an economy, such as trade, tariffs, taxation, price levels, labour conditions etc., veer round it. This productive structure as it exists to-day is the product of changing historical conditions. We will look at it through history, and hence our survey will take that shape which history has imparted it.

That is a particular history; a chapter in the general history of imperialism, the basic motive for which has, with the advent of modern capitalism, remained economic; the cultural imperialism of ancient and medieval times has been irretrievably supplanted by the technical imperialism of modern times. With the growth of industrialism this 'economic' has come to stand for certain definite activities such as seeking sources of raw materials, markets for goods, outlets for finance capital, etc. Such imperialism has produced a more or less uniform pattern of result in the subject

portions of the globe: Very similar plantation and mining economies, patchy and unhistorical industrializations, similar population problems. These constitute the history through which a survey of the productive structures in imperial territories has to pass. Stressing this historical frame is most essential in the case of India since here the illusion of development being independent of this frame is most present. This illusion is due partly to the hugeness of the victim country and partly to the long and continuous political conflict which blurred the economic issues. Nevertheless the basic economic issues are there, and they cannot be made to lose their historical character by simply being ignored.

The important historical aspects of Indian agriculture and industries are surveyed in the following chapters. As a basis for the study of these two, some aspects of the occupational distribution of population are outlined. All the three, however, go side by side, and even in their aspect of pure economic analysis contribute to a single picture of the impact of industrialization on a pastoral civilization and its result on the nature of the economic pursuits of the population.

THE POPULATION IN THE OCCUPATIONS

Whatever may be the enormous variety of the castes, tribes, religions and beliefs of the Indian population, their influence on the occupational distribution is little. Much has been said and written about the caste system interfering with the economic life of the people. But it is a conventional observation, in many cases much exaggerated.¹ What is most prominent in the distribution of the workers in the occupations is inevitable economic necessity. The first consideration for the earner is his or her two meals, and religious precepts come only next. The latter are only a matter of routine for them observed mainly because of the fear of social ostracism. Religion and caste are no doubt influences on occupation; but they are surely not the *power* determining it. The religion of the Indian, his position in the stratified religious-social order, is not the motive force of his material pursuits. Economic compulsion alone might put him in a particular occupation, as well as economic compulsion combined with a religious calling; but not

¹ An extreme view of such a kind is expressed by Dr. Vera Anstey. She says in *The Economic Development of India* (1929): "Social stratification has thus become an apparently irremovable fetter on material progress" (p. 52). "Caste rules determine the choice of occupations, which are followed as inherited callings, not as a means to greater prosperity. Hence the higher castes disdain manual and technical labour, whilst the lower and outcastes are not permitted to adopt the more remunerative occupations." "Caste rules also regulate the actual methods of production, thus preventing experimentation and the exercise of initiative" (p. 53).

religious calling alone. Though the scriptures lay down the respective occupations for the five castes, we can find abundant examples of their intermingling; in fact the condition is nothing but that. If it is contended that religious dogma and ecclesiastical fiats pass into oblivion in the face of the struggle for existence in the economic order of society, India affords a fine example. The major aspect of a man is economic and religion is a minor one. This is largely the rule and the contrary the exception. The conflict of these two is having repercussions on religion. In outlook and habits the earner prefers to be a religious man but in life he is forced to be an economic man. So he adjusts his religious habits to suit his materialistic necessities and these inevitable modifications naturally corrupt the God-made religion. This flexibility of belief and religious habits lessens his respect towards them, making their observance more and more formal and less and less sincere. Thus it is that the diverse religions and ramified sects of India, marshalled in alphabetical order in many volumes, have little to do with the occupation of the people, who go on not because of them but in spite of them.

The accompanying tables give an idea of the occupational distribution of the population since 1901. The outstanding feature is that its pattern has remained the same throughout. To observe this all the three tables have to be studied together. Between 1901 and 1911 the increase in the number of actual workers was proportionate to the increase in total population (Table I). But not so between 1911 and 1921, and 1921 and 1931, the deficiency in these cases being 2·8 per cent and 5·2 per cent respectively. The consequence was an increase in the proportion of non-working dependants at the end of both the periods over the previous ones as seen in Table III. This table reflects two constant

TABLE I

	Total ¹				Percentage of Increase or Decrease		
	1931	1921	1911	1901	1901-1911	1911-1921	1921-1931
Population	352,837,778	318,942,480	315,156,396	294,361,056	+7.06	+1.19	+10.62
Actual workers	153,916,050	146,413,562	148,885,003	138,756,182	+7.20	-1.60	+5.40
Occupation	Percentage of Actual Workers						
A. Production of raw materials	67.33 ^{2b}	72.42	71.53	65.54	+17.00	-0.40	Not comparable; see note 2b
B. Preparation and supply of material substances ..	16.63	17.60	18.80	17.97	+12.30	-8.00	-0.50
C. Public administration and liberal arts	2.68	2.81	2.48	3.09	+2.30	-3.70	+0.50
D. Miscellaneous	13.36 ^{2a}	7.17	7.19	13.40 ³	Not comparable; see note 3.	+4.30	Not comparable; see note 2a

¹ Taken from the Census reports.^{2a} Includes about 4.5 per cent of the total number of actual workers classified in this census as 'domestic workers,' but in the previous censuses as 'agricultural workers.'^{2b} Excludes the percentage mentioned in 2a.³ This includes about 6.2 per cent of the total number of actual workers returned under the classification 'unskilled labour, not agricultural' in the census of 1901. About half of the number of workers classed as such, i.e., about 3 per cent of the total number of actual workers, are really agricultural, which increases the figure against A.

TABLE II

Occupation	Percentage of Total following occupation ¹ in each A and B.		Percentage of actual workers in each A and B.		
	1931		1921	1911	1901 ²
A. Production of raw materials	100.00	100.00	100.00
1. Pasture and agriculture	98.92	98.86	99.93
Cultivation	94.61	94.01	
Cultivation of special products and fruit gar- dening	1.36	1.12	
Forestry	0.22	0.35	
Stock raising	2.73	3.38	
Raising of small animals and insects			
2. Fishing and hunting	0.69	0.80	
3. Exploitation of minerals	0.39	0.34	
B. Preparation and supply of material substances	100.00	100.00	100.00
1. Industry	61.09	62.53	86.88
Textiles	15.65	15.85	22.90

Hides, skins, etc.	..	..	1.21	1.20	1.03	
Wood	..	..	6.64	6.14	6.17	6.87
Metals	..	..	2.83	2.81	2.60	5.97
Food industries	..	..	5.63	6.41	7.60	
Industries of dress and toilet	..	..	13.19	13.21	13.35	Included under textiles
Building industries	..	..	2.29	3.14	3.42	2.73
Construction of the means of transport	..	..	0.10	0.07	0.07	0.16
Others	..	..	12.37	12.46	12.44	
2. Transport	..	..	9.06	7.65	8.54	6.29
3. Trade	..	..	31.48	31.26	28.93	6.83

¹ 'Total following occupation' includes those following it as:

(a) Principal occupation,

(b) Working dependents, and

(c) Subsidiary to other occupation.

The figure in Table I for this year against 'Actual workers' is the total of *a* and *b* only. This distinction is due to the change in the heads of classification in the census of 1931 from the previous ones. However, the effect of the addition of (c) on the percentages is very inconsiderable.

² Since the classifications are very different in the census of 1901 these percentages cannot be had for all classes of occupations in the table. Hence many are omitted. Even the few as they are given are not comparable with those of the other years on an equal basis. They are offered for what they are worth.

TABLE III¹

Occupation	Ratio of Workers to Non-Working Dependents (Per Cent.)			
	1901	1911	1921	1931 ²
A, B and C.				
I. Exploitation of animals and vegetation	46 : 54	47 : 53	46 : 54	44 : 56
II. Exploitation of minerals		58 : 42	64 : 36	62 : 38
III. Industry		50 : 50	47 : 53	45 : 55
IV. Transport	44 : 56	48 : 52	45 : 55	43 : 57
V. Trade		45 : 55	44 : 56	42 : 58
VI. Public force		45 : 55	48 : 52	46 : 54
VII. Public administration		37 : 63	38 : 62	36 : 64
VIII. Professions and liberal arts	41 : 59	42 : 58	41 : 59	39 : 61
D. Miscellaneous		57 : 43	54 : 46	44 : 56
Totals	47 : 53	47 : 53	46 : 54	44 : 56

¹ *Census of India, 1931, Vol. I (India), Part 1, p. 275.*² For this year the percentages are "inferred from an examination of the distribution of dependents at previous censuses." —*Ibid.*

features. (Class D is omitted for purposes of any observation because of the vague nature of returns under that head). Firstly, non-working dependents have always and in all occupations (except in II, which is a very minor occupation) remained in excess of earners, which feature is probably attributable to the joint family system. Secondly, the ratio of workers to non-working dependents has remained fairly balanced in the totals as well as in the major occupations. Only in VII and VIII is it not so. The workers in these categories constitute the bulk of the middle class, are mostly educated, and derive comparatively high incomes. In the families of these classes it is usually only the male head that earns, his wife and children remaining at home. They do not go to work like the agricultural or industrial worker's wife and children since it is both unnecessary and in some cases considered beneath their dignity to do so. The children being well placed in life enter schools and colleges. Hence the proportion of non-working dependents is larger.

The percentage distribution of the actual workers in the main and the sub-classes at the last three censuses is practically unchanged (Tables I and II). The methods of enumeration will be undergoing change, effectively though slightly, from period to period, and the degree of accuracy of the returns will also be varying.¹ Hence small margins will have to be allowed for this in the percentage figures. Allowing for this, the tables as a whole present the unchanged pattern of the occupational distribution, with very little change in its details to be accounted for. There occurred a slight steady decrease in the proportion of those

¹ "In point of interest and importance the statistics of occupations are perhaps the most valuable of all those obtained at a periodical census. At the same time they are undoubtedly the most difficult to collect with accuracy and to compile with precision."—*Census of India, 1921, Vol. I (India), Part 1, p. 236.*

employed in industry between 1911 and 1931 (Table II). It was made up, between 1911 and 1921 by the proportion in trade, and between 1921 and 1931 by that in transport. The former also made up the decrease in the figure for transport in 1921. So of those engaged in B, about two-thirds are engaged in industry and one-third in trade and transport. Of those engaged in A, pasture and agriculture absorb all but very few. It is the steadiness of this proportion that is significant and not the slight variations in those of the sub-classes under 1, and in 2. Because, it is in pasture and agriculture that the seasonal diversions from the main to the subsidiary occupations occur most,¹ and the actual distribution of workers in those classes might have been slightly different in proportion from that recorded at the time of enumeration.

After making the necessary changes indicated in footnote 2, we find that the proportion of workers in class A has remained at a stable level since 1911 (Table I). But that of B, i.e., of workers in industry, transport and trade, has recorded a slight steady decrease. It is industry that has

¹ "In India there exist a very large number of mixed or dual occupations, particularly in the village economy, and at the Census one or other will be enumerated but not both. Apart from the energy of the enumerator, no means exist for deciding which is the principal one. In 1921 Mr. Sedgwick mentioned as examples of persons in such dual occupations sheep-breeders and blanket-weavers, shop-keepers and money-lenders, fishermen and boatmen, cattle breeders and milkmen, field labourers and mill-hands. There are many others which will occur to everyone in the Indian country side, where occupation is often not so specialized that a man earns his living by doing only one thing during the twelve months of the year. This is inevitable in a country that is largely agricultural and is generally poor, which has a large population living from hand to mouth and is blessed or cursed with climatic conditions over large areas such that a difference in the amount of rainfall can change, for a season, the whole occupational features of the locality."—*Census of India, 1931, Vol. VIII (Bombay Presidency), Part 1, p. 226.*

contributed to this, as can be seen in Table II. But this reduction in proportion is not due to industrial unemployment in the sense that term is understood in relation to western countries, though it is to some form of unemployment. Industrial unemployment is a result of the over-development of industrial capitalism; a result of an economy losing control over the continuously expanding productive forces in industry. But in India this decreasing proportion is due to the under-development of industrial capitalism; it is a result of industrial expansion not keeping pace with the growth of the industrial population. The man-power thus displaced from industry is finding employment in other occupations. Since class C is not open to them they go either to A or D. But the minor and unproductive occupations in D are so numerous in variety that the expansion afforded by them as a category cannot be reliable. Besides, since nearly 80 per cent of the working population is engaged in agriculture and industry, the fate of the mass of population is ultimately dependent upon the capacity for expansion of these occupations.

The particular population problem in India is that of population pressure—pressure against the natural resources, and particularly on land. "In peasant countries the problem of population must be studied more in the Malthusian sense than in the Marxian sense," since the over-population in these countries "is due to the restricted area of the land which has been occupied from time immemorial, and is not due to the changes in the means of production or to economic cycles."¹ "The heavy loss of human life by starvation in the interior of countries like China, India or Russia must be explained only in the Malthusian sense. It

¹ *Population* (Harris Foundation Lectures, 1929), Lecture by Shiroshi Nasu: 'Population Problems of the East and West,' pp. 170-171.

is not the product of a certain economic system but rather, a result of the loss of balance between natural resources and population."¹ In India the density of population on tilled land is high. But it is not the actual density that is the index of population pressure but the environmental limitations to productive capacity under which the pressure exists; because, "population pressure is determined primarily neither by the size nor the density of population, but by the relation existing between these and national productivity."² There are other countries for example in which an acre of cultivated land has to feed a larger number of people than in India—Italy and Japan to name two.³ But these countries do not suffer from population pressure in the sense India does, because their environmental conditions in relation to national productivity are sound beyond comparison with India. Occupational distribution is balanced, methods of cultivation much advanced, the raw material situation good absolutely, though unsatisfactory in comparison with the United States and the British Empire, and industrial capitalism highly developed. As Professor Carr-Saunders has put it, "in these countries the population has been raised above the immediate impact of natural

¹ Shiroshi Nasu, *op. cit.*, p. 172.

² Frank H. Simonds and Brooks Emeny, *The Great Powers in World Politics* (1935), pp. 86–87.

³ Relative number of persons per square mile of tilled land in certain countries.

Spain = 100

Spain	..	100	Holland	..	303
France	..	120	India	..	320
Switzerland	..	187	Italy	..	339
Germany	..	205	Belgium	..	438
England	..	251	Japan	..	1,077

forces, and vital statistics even in those cases where there is evidence of congestion of population are not affected by the vagaries of climate and the yield of harvests."¹

But in India the situation is the opposite. The exact situation here is what Professor Carver has termed *local congestion*, a condition caused by the disequilibrium between the two factors, workers and land.² It can be remedied either by reducing the number of workers or by extending the area of land available as a means of subsistence. In both cases the effect is intended to be a larger share of the production to the worker. In India reducing the number of workers on land implies their occupation in industry, and the extension of land implies its availability. It is because environmental conditions are limited in relation to the needs of these remedies that population pressure exists.

Regarding the extension of the amount of cultivable land the process was (and even now is) handicapped by the very limited area of land available for the purpose. The area classed as 'culturable waste other than fallow' in the *Agricultural Statistics of India* will be usually half of the area actually cultivated. But this does not give even a rough idea of the extent to which cultivation could have been extended; because, "it is certain," wrote the Agricultural Commission, "that much of the area classed as 'culturable waste other than fallow' . . . could in no conceivable circumstances be brought under tillage."³ But some portion of this at least must be really culturable, since otherwise the net area sown would not be increasing year after year. It has increased on the average by about 80 million acres (see p. 79) mostly

¹ *World Population* (1936), p. 275.

² See *Proceedings of the World Population Conference, 1927*, Prof. T. N. Carver's paper on 'Some needed refinements of the Theory of Population,' p. 127.

³ *Report of the Royal Commission on Agriculture in India, 1928*, p. 605.

through irrigation. But this increase has not brought about a reduction in pressure as the following table indicates:

Year	Number of acres sown per head of total supported by agriculture
1901	1.08
1911	1.16
1921	1.20
1931	1.33

There has been no doubt a small steady increase in the area sown per head but it has been too inconsiderable for the purpose. The population must be taken as a growing one and not as a static one. There has been no reduction of the pressure on land because the rate of the extension of cultivation has just kept pace with the rate of the growth of the agricultural population and has not outstripped it. In India there exists a huge pent-up population with effective preventive checks almost totally absent among the workers, with the consequence that the extension of cultivation is being closely chased by an unchecked population. The pressure would have been lessened if the extension were on a scale sufficient to distribute less closely the *growing* population. The environmental limitation of the availability of cultivable land for such a purpose prevented it. But even if that were the process the pressure would anyway reappear some day as all the available area would come to be occupied with no check on the population increase. Not merely that. The pressure would increase. It can be tried even now. The really culturable area which is not yet covered is said to be at present about 50 million acres,¹ which would in the normal course come under tillage in about twenty years. Suppose it were covered by irrigation

¹ See S. Vere Pearson, *op. cit.*, p. 89.

immediately. It would mean about 1.5 acres per head of the agricultural population, which is by no means any substantial relief. But as the population would multiply, as it is sure to, with no more land for extension, even this relief would disappear and the figure of *per capita* acreage would grow smaller gradually.

For a similar reason the other remedy for the pressure, namely, the reduction of workers on land, became inoperative. Industrial establishments multiplied in number during the thirty years. But the rate of their increase was not sufficient to accommodate the surplus agricultural workers after absorbing the natural increase in the numbers of the industrial. This particular rate of industrialization in India was the result of certain historical conditions, as it always and in all cases is, such as its dependence on foreign capital and management, etc. Even if it were faster than it has been it would ultimately clash with the natural resources. India's industrial potentialities are very limited. If they were all to be developed immediately, within a course of a few years, it would no doubt reduce the pressure on land considerably, assuming of course that the cultivator will take to industrial labour, overcoming his instinctive prejudice in favour of the soil which is particularly strong in India. But what afterwards when population would continue to increase? Nothing is more fantastic than the imagination that India has industrial potentialities which after remedying the existing pressure can wait with a reserve to meet future increases in population (see Appendix A). The very nature of her geographic anatomy does not admit of such possibilities. India's mineral and power sites are as sparse for the area as her soil and rainfall for agriculture are diffused.

Thus, both in agriculture and industry there exist such environmental limitations to national productivity as clash

with the population to cause and maintain the pressure. It is beyond the scope of this survey to suggest what ought to be done in the face of this gloomy situation and outlook. But it may be remarked that the remedies lie only in the two directions of reducing the number of workers or increasing the amount of tillable land. A third one may be added, and that is increasing the fertility of the soil. But the limitations to this are stricter than to the other two. To maintain a working balance between the population and productivity these remedies will have to be carefully exploited, for which a fundamental attempt at reshaping the agricultural and industrial organizations *side by side* is necessary. Because, "man is not living in a vacuum. He is an inhabitant of the earth: . . . If we approach our problems with the constant thought that we must keep our feet upon the ground, must always be aware of our relations to the sum total of the environmental conditions provided by the earth, there is at least a possibility that we may be victorious. Without that attitude of mind we are certain to fail."¹

¹ K. F. Mather, Editor's Preface to *The Geographic Pattern of Mankind*, by J. E. Pomfret (1935), p. v.

III

THE AGRICULTURAL ECONOMY

I.

State participation in the agricultural economy is a practice of recent origin. In the west it began with agriculture becoming an industry, thereby coming into conflict with the agricultural economies of other countries in the international market. Since such a conflict occurred earlier in the case of industry it demanded state participation first. During the period before the agricultural economy demanded this direct participation from the state, the latter's approach to the land was confined only to the extent of tapping revenue from it.

With the commencement of the political activities of the East India Company¹ in India, it needed revenue,² not merely for running its administrative machinery here, but also for meeting the costs of extending its territory through wars. Such a dual purpose no doubt existed even before the advent of the British, with the moghul and the other dynasties that ruled contemporaneously with them, which also prosecuted wars of aggression. But the demand of the Company for this purpose fell on the cultivator more systematically and for a longer and more continuous period

¹ At some places in the following pages the Company is styled 'the state,' for the sake of avoiding confusion in expression, though strictly it is not a state as we understand the term in political science. It is also styled in some other places 'the government' and 'the administration.'

² 'Revenue' refers throughout to land revenue (quotations excepted).

of time, since the conquests of the Company were steadily progressive. The Company approached and influenced Indian agriculture only through land revenue. Its contact with the agricultural economy for this purpose resulted in the evolution of the several systems of land tenure in which Indian agriculture lies at present enveloped, and these in turn conditioned the agricultural economy. In an age when direct state participation in it was absent the several experiments with the modes of land revenue assessment are the best indices for studying the condition of agriculture. The assessment of land revenue is both determined by and determines the prosperity or otherwise of agriculture. But while its effects are soon felt on cultivation, the assessors are usually too slow to vary the assessment in the light of the changes produced in cultivation. This is particularly true when agriculture is not progressive. The assessment is increased when there occurs prosperity because the inclination to expect depression is not present; but it is not decreased when depression sets in because the inclination to expect early prosperity is too strong. The result is, firstly, that the index represents the impression left on agriculture *over a long term of years*, and secondly, that it tends to over-emphasize prosperity and underestimate depression. The second result is in one way safe: since we are dealing with an agricultural economy approached for purposes of imperialist expansion, it contains a wide margin in favour of the administration. If in spite of this wide margin a deteriorative trend is observed in the history of the agricultural economy, it beyond doubt indicates a case of exploitation.

The contact between the Company and the Indian land revenue began with the acquisition of the Diwani of Bengal, Bihar and Orissa in 1765. This acquisition put it on a career of territorial maintenance and expansion involving

operations resting on money, the source for which it discovered in the revenue of the diwani. In the successive policies they adopted from this date the authorities were always the tools of economic circumstances. This is further evidenced by the several conflicts that arose between the instructions from the home authorities and the actual practice of revenue administration by their servants in India. At the very outset they approached the land revenue system prevailing in the diwani at the time of their acquisition with great caution lest they should damage it by mishandling its machinery. Shortly after the Company assumed the administration of the diwani the Court of Directors wrote: "We must now turn our attention to render our acquisitions as permanent as human wisdom can make them. This permanency we apprehend can be found only in the simplicity of the execution . . . the experience we have already had in the province of Burdwan convinces us how unfit an Englishman is to conduct the collection of revenues, and follow the subtle native through all his arts to conceal the real value of his country, to perplex and to elude the payments. We therefore entirely approve of your preserving the ancient form of government, in upholding the dignity of the soubah.*¹ The home officials advised this initial course, namely, the preservation of the indigenous machinery, to ensure a regular flow of revenue to the exchequer. But the revenue must be there to be collected. So their next step was to enunciate the chief principle to be adopted in India. They were anxious to see that agriculture and the cultivator prospered. In their orders of June 1769, after suggesting that the peasantry should be

* A province, the administrative unit under the moghuls.

¹ Quoted by Peter Auber, *Rise and Progress of the British Power in India* (1837), Vol. I, p. 149.

given relief from oppression by remedying the abuses in the moghul system of revenue collections, they say: "We have said in a former part of this letter that we have no view to prejudice the rights of the zemindars, who hold certain districts by inheritance; but when any of these die without heirs, the lands are to be let for a term of years, and upon such conditions as may encourage improvements in cultivation. In like manner, where lands lie waste you should propose terms for settling them, giving the undertakers every advantage possible, to enable them to proceed in a work so beneficial to the community in general, and yielding to the company, in process of time, a certain increase of revenue."¹ This principle they recommended not so much out of any altruism—in spite of the tone of the orders—but with due regard to the danger to which a decaying agriculture would expose the Company's revenue. It was not in the interests of the Company to coerce cultivation and exact the revenue. Such a course would cause the gradual extinction of cultivation, and the revenue would not be forthcoming afterwards even if forced. The Company's purpose would be best served by adopting that mode of assessment and that system of land tenure which would ensure it as continuous a flow and as high an amount of revenue as possible; hence this principle. That these were the intentions of the home authorities in enunciating the principle is evidenced in a defence statement made by Warren Hastings before the House of Lords during his trial: "My Lords," he said, "in refutation of the first (charge), namely, that I ruined the country committed to my care I need only say I increased the revenues of my government from three millions to five."² He contended that this in-

¹ Quoted, by Peter Auber, *op. cit.*, p. 279.

² *The History of the Trial of Warren Hastings* (1796), Part IV, p. 85.

crease in annual income was "not of temporary and forced exaction but of an easy, continued, and still-existing production. . . ." ¹ Hastings mentioned this as "the surest evidence of a good government, improving agriculture, and increased population." This deduction need not however concern us, and besides it is open to question since there are many reports as to the impropriety of the methods employed in causing this increase in revenue. But the implication in his statement is clear. He meant to claim that he had discharged his duties faithfully by increasing the annual revenue of his government through keeping agriculture going; and in this claim is implied that that was expected of him by the authorities at home.

This principle was badly shaken by the economic circumstances of imperialism, and without upholding it imperialism could not proceed. In the struggle that ensued, the Company minimized its responsibility for prosperous cultivation and maximized its demands on land. The history of the evolution of the three main systems of land tenure bears out this tendency in the Company's administration, at each stage the condition of cultivation being the factor governing the course of events.

In consonance with the first instructions of the Court of Directors the native machinery was maintained in India for purposes of revenue collection. The office of the *naib dewan* was the medium through which the Company managed agriculture. The difficulty soon arose when it was attempted to purge this machinery of its traditional malpractices. The varying degrees of control that were being suggested from time to time to be exercised on the native agents could not be strictly enforced. If a check were placed on the activity of the *naib dewan* and his men they

¹ *The History of the Trial of Warren Hastings*, Part IV, p. 102.

would do their work most reluctantly, since they were there to benefit themselves through all sorts of abuses, and the revenue collections would fall. So on account of this fear they were left to themselves with the consequence that not only did revenue collections suffer but the state of cultivation itself grew bad. A picture of the conditions under the régime of the *naib dewan* is given by Warren Hastings in a despatch during November 1772: "The internal arrangement of each district varied no less than that of the whole province. The lands subject to the same collector, and intermixed with each other, were some held by farm, some superintended by *shicdars*, or agents on the part of the collector, and some left to the *zemindars** and *talukdars** themselves, under various degrees of control. The first were racked without mercy, because the leases were but of a year's standing, and the farmer had no interest or check to restrain him from exacting more than the land could bear. The second were equally drained, and the rents embezzled, as it was not possible for the collector, with the greatest degree of attention on his part, to detect or prevent it. . . . The regular course of justice was everywhere suspended; but every man exercised it who had the power of compelling others to submit to his decisions. The people were oppressed; they were discouraged and disabled from improving the culture of their lands; and in proportion as they had the demands of individuals to gratify, they were prevented from discharging what was legally due to government."¹ Many letters reached the Court of Directors between 1769 and 1771 holding the native agents responsible "not barely for monopolizing grain, but for compelling the

* Estate owners.

¹ Ed. by G. W. Forrest, *Selections from the State Papers of the Governors-General of India—Warren Hastings* (1910), Vol. II, pp. 267-268.

poor ryots to sell even the seed requisite for the next harvest."¹ But whatever the malpractices going on, the administration had to be getting revenue large or small. So it was acquiescing in them. The council at Calcutta which instituted an inquiry into the causes of the bad agriculture that prevailed, in a unanimous report spoke of "the venality which formed part of the genius of the collectors, which was known to be openly exercised or tacitly allowed by the government, without drawing any shame or discredit on the guilty, or being thought any peculiar hardship on the injured."² To put an end to such a state of affairs so that regular and growing revenue might be assured was the immediate task. The initial instruction to retain the office of the *naib dewan* and the collectorate in the native hands had now to be revised, and on instructions from home, the Company itself assumed these in 1772. The fifteen years that followed brought out clearly that piecemeal arrangements would not serve the monetary needs of imperialism. Up to 1789, when Cornwallis declared the decennial settlement with the promise of perpetuity, the several short period assessments—mostly annual ones—that were being operated, failed to bring about the needed dual effect of progressive agriculture and regular flow of revenue. They need not have been tried, and a long-term lease could have been adopted forthwith. Hastings, acknowledgedly clever imperialist that he was, drew up a plan in 1775, of auctioning the lands in some districts in large estates for life to the zemindars, and in some others granting them as leases to those who offered the most advantageous terms. He thought that such a plan had the chance of bringing about the needed dual effect. Writing in justification of it he said: "It is my earnest wish and my

¹ Letter to Bengal from the Court of Directors, August 28, 1771. Quoted by Peter Auber, *op. cit.*, p. 355.

² Quoted, *ibid.*, p. 348.

united object in the enquiry which I have set on foot (to collect information preparatory to the enforcement of his plan) to establish an equal, an easy and a perpetual assessment of the public revenue, to collect it through the zemindars where they are capable of the charge, and to employ other means where they are not, still reserving to the zemindars a fixed proportion of the net revenue."¹ Whether this would have produced the needed dual effect if tried, no one can say. Probably it would not have, in view of the fact that the permanent settlement itself—of which this was an embryo—failed to produce those effects, as we shall see later. But anyway the home authorities did not want this plan to be tried for the very reason Hastings wanted it to be. They were afraid that it would result in a retardation of cultivation, which would mean diminished revenue. While Hastings put his stress on revenue, the home authorities put theirs on its prerequisite, namely, progressive cultivation. After snubbing him for the venture, and cautioning the government against sudden changes in the mode of collecting revenue, they wrote that "hereditary zemindars² were to be continued, where they could with safety to the revenue, on terms sufficiently moderate that they might maintain a degree of respect amongst their dependents. . . . Wherever lands had been let at a reasonable rate, and the zemindar or renter fulfilled his engagements to the satisfaction of the government, no such party was to be dispossessed, or compelled to pay an advanced rent, without the most substantial reasons for such advance; and even then the occupant was to have the preference over all others and to be suffered to continue at a moderate additional rent. But in all instances where the increased value should not be

¹ Quoted by Peter Auber, *op. cit.*, p. 541.

² These were mostly petty and incapacitated.

considerable enough to become an object to government, no zemindar or renter was to be dispossessed or molested, but permitted to enjoy the fruits of his industry and improvements, and to renew his lease or agreement from year to year without any increased rent."¹ It was in compliance with these instructions that the Company was carrying on with piecemeal arrangements till 1789. But this plan of Hastings and its disapproval throws some further light. While Hastings was alive to the immediate needs, the home authorities were alive to the ultimate ones. The plan of Hastings expresses the acuteness of the need that arose for money to further imperialism; while the caution of the home authorities expresses a statesmanlike reminder that the work has to go on surely, though slowly. There is no conflict between them; on the other hand they establish that the Company clung to the fortunes of the agricultural economy to further imperialist expansion. Each beat one side of the drum, but how well both of them clung to it!

The expectations of the home authorities did not materialize. There occurred however an extension of cultivation: "I am from my own observation, as far as it has extended," wrote John Shore in his minute of September 18, 1789, "authorized to affirm, that since the year 1770 cultivation is progressively increased under all the disadvantages of variable assessments and personal charges."² But Lord Cornwallis, who assumed office in 1786, drew a bad picture of the condition of agriculture in his despatches, and Hastings had claimed, truly, that he had caused an increase in revenue collections.³ The deduction is this, that though cultivation extended, neither did agriculture prosper nor did

¹ Quoted by Peter Auber, *op. cit.*, pp. 543-544.

² *The Fifth Report from the Select Committee on the Affairs of the East India Company*, 1812, p. 476.

³ See *supra*, p. 56.

revenue flow freely to the extent that was needed for purposes of the Company's activity.¹ Hastings must have caused a part of the increase in his revenue collections obviously by coercive methods; and the retrograde effects of these settled themselves on the agricultural economy to make it what Cornwallis depicted it to be.

The need for revenue now confronted Lord Cornwallis. He had to see that land was cultivated for the purpose, the Company at the same time evading any direct responsibility for the cultivation. The device he adopted was the famous Permanent Zemindari System. It is not strictly correct to call it 'his' device. Much of its spade work was done by John Shore, and the plan itself before being announced underwent much scrutiny at the hands of the Court of Directors and the King's ministers in England. But while they were all for the system, Lord Cornwallis was particularly for its essential feature—permanency. He fought for it, and hence it is more his device than the administration's. The decennial settlement, which was to be made permanent, was announced in 1789. The demand of the state on the zemindar was fixed. The demand of the zemindar on the tenants was no concern of the state, though certain vague clauses such as that exactions should not be made, that eviction should not be caused without established default etc., were introduced. By the declaration of 1793 (Regulation XIX of 1793), the first, i.e., the fixed demand of the state on the zemindar was made unalterable for ever. High hopes, higher than warranted by the situa-

¹ Cf. Anonymous, *An Inquiry into the Expediency of Applying the Principles of Colonial Policy to the Government of India*, p. 170: "Such it was, with very immaterial exceptions, before the formation of the permanent settlements; the cultivation of the country, though increased in extent of surface, being not at all improved in quality, and consequently the general circumstances of the people being in no respect bettered. . . ."

tion, were built by Cornwallis on the settlement. In his despatches he exalted John Shore, the author of the plan, to the position of a genius and used all his resources of argument to plead for its permanency: "In a country where the landlord has a permanent property in the soil," he wrote in his famous minute of September 18, 1789, "it will be worth his while to encourage his tenants who hold his farm in lease to improve that property; at any rate he will make such an agreement with them as will prevent their destroying it. But when the lord of the soil himself, the rightful owner of the land, is only to become the farmer for a lease of ten years and if he is then to be exposed to the demand of a new rent, which may perhaps be dictated by ignorance or rapacity, what hopes can there be, I will not say of improvement, but of preventing desolation? Will it not be to his interest, during the early part of that term, to extract from the estate every possible advantage for himself; and if any future hopes of a permanent settlement are then held out, to exhibit his lands at the end of it in a state of ruin?"¹ Cornwallis was afraid that if a decennial settlement subject to revision were adopted, the same lapses, as regards both collections and cultivation, as occurred in the case of the previous short-period settlements would repeat themselves, though, it may be, more slowly. And the Company could not afford those lapses again since its revenue requirements were growing larger day by day, and the urgency for operating the dual need,—progressive agriculture and regular flow of revenue, was growing more and more acute. He supposed that, by the system, in the first place, cultivation would tend to improve continuously since the consequent monetary returns would accrue to the zemindar, in whose interest it was to cause improvements, and in the second

¹ *The Fifth Report*, p. 473.

place, because of this progressive accrument to him he would be enabled to pay the fixed amount to the state without default, thus ensuring a regular flow of revenue to the Company. In the actual working these expectations proved too sanguine and the predictions too flattering. The zemindars did not exhibit much enthusiasm to improve cultivation. It can be said also that to a certain extent they *could* not do it. Though the zemindar was declared the owner of the land, the settlement vested an occupancy right in the actual tiller of the soil, the ryot. Cornwallis insisted on this fixity of tenure for the ryot, contending that it involved no incongruity of proprietorships: "Neither is the privilege which the ryots in many parts of Bengal enjoy," he wrote in a minute of February 3, 1790, "of holding possession of the spots of land which they cultivate, so long as they pay the revenue assessed upon them, by any means incompatible with proprietary rights of the zemindars. . . . To permit him to dispossess one cultivator for the sole purpose of giving the land to another, would be vesting him with a power to commit a wanton act of oppression from which he could derive no benefit."¹ His motive behind this insistence was no doubt benevolent. But it was not consistent with the results envisaged by the settlement. The nature of the relationship between the zemindar and the tenant implied a certain bar to agricultural prosperity. Because, the security of tenure laid down for the ryot prevented the zemindar from *forcing* improvements at the threat of evicting him. The ryot grew only that much produce which was necessary to meet his rental obligations, with a little surplus for himself. Though intensive cultivation would be beneficial to the zemindar he could not dictate its adoption to the ryot. He could not change the tenant with the purpose of renting

¹ *The Fifth Report*, p. 487.

the land to one who might cultivate better. The enthusiasm of the zemindar, if any existed, became inoperative. "The zemindar was still to pay nine-tenths of his rents to the exchequer; the ryot was still to be protected in the perpetuity of tenure, and was in fact to be in a more peculiar, and as far as the interests of agriculture are concerned, more important sense than his anomalous landlord, the owner of the soil. The quantity of stock, the distribution of labour, the choice of crops, were still to be left to the resources and discretion of the ryot for ever. There was no principle in the new arrangement that was calculated to make that rank and unprofitable underwood give place to trees of majestic growth and various usefulness."¹

The result was the train of evils that combined to frustrate the establishment of the dual need of the Company,—prosperous agriculture and regular flow of revenue. Whatever the result of the settlement, the Company had to be getting revenue, and so it exercised its power over the zemindar in quite a stiff manner. It was expected of him to increase his income through causing improvements in cultivation,² and be regular in his payments. We have seen how he could not do it owing to the position in which he was placed in relation to the ryot. We do not know if he

¹ Anonymous, op. cit., p. 171.

² In arguing for the permanent settlement before its enactment, Mr. Thomas Law had said that the banking community was asking for it. Because, it appears, they hesitated to advance loans to the zemindars without proper security to recover them, since the zemindars had no permanent property. Mr. Law contended that restoring them to their property permanently would induce confidence in the bankers to lend them money for cultivation. (See J. W. Kaye, *The Administration of the East India Company; a History of Indian Progress* (1853), pp. 178–179.) However, the zemindars do not seem to have availed themselves of this facility, or, if they did, they must have done so for purposes other than causing improvements in cultivation.

would have done it if a suitable relationship existed. Anyway, either because of the relationship or apart from it, he *did not* attempt improvements. But he however needed an increasing income to be regular in his payments, and so he went on enhancing the rents. The tenants, famine-stricken on not a few occasions, defaulted. To recover the dues his power over them was thought insufficient, and in 1799 an act (Act XII of 1799) was passed investing him with the power of summary distraint over the goods of the defaulting ryot. Thus the Company was supporting the enhancement of rents to get their money from the zemindars, a course of action neither envisaged nor sanctioned by their own settlement. As Sir E. Colebrooke wrote in a minute of July 12, 1820, "the errors of the permanent settlement in Bengal were . . . secondly, in the sacrifice of the peasantry by one sweeping enactment, which left the zemindar to make his settlement with them on such terms as he might choose to require. Government indeed reserved to itself the power of legislating in favour of the tenants; but no such regulation has ever taken place: and on the contrary, every subsequent enactment has been founded on the declared object of strengthening the zemindar's hands."¹ This the Company did purely by force of its economic circumstances. The defaulting ryots would not leave the land on the plea that they had occupancy rights, and the zemindars ruined them through the power of distraint vested in them.² The ultimate result of this was a deterioration in the agricultural economy.

These new trends in the material situation gave birth to

¹ *Selection of Papers from the Records at the East India House*, Vol. III (1826), p. 167.

² See the Report (on that point) of Mr. Cornish, the fourth judge of the Patna Court of Circuit, dated July 26, 1814, *Selection of Papers*, Vol. I (1820), p. 366.

new ideas about land tenure, but not yet (1795-1800). The worship of the permanent zemindari system as a panacea still remained. The scene of experimentations now shifted to the Madras Presidency. The monetary needs of the Company at Fort St. George were growing, and no stable system of land tenure had been adopted. It had taken much time to deprive the zemindars of their military and administrative powers and the 'havelly' lands* had remained improperly harnessed for revenue purposes. After prolonged correspondence from 1785 to 1801, between the Madras government, the Supreme government at Calcutta, and the Court of Directors, the last finally instructed the introduction of the permanent settlement in the Northern Circars.† The measure was adopted quite hurriedly and the pressure for it came from Lord Wellesley who had succeeded Shore as Governor-General in 1798. He was anxious that the revenue resources of the province should be tapped as early as possible since its financial conditions were unsatisfactory. During a tour of the province a few years after his assumption of office, representations had been made to him about the pecuniary distress it was experiencing.¹ According to the settlement, during the years 1802-1804, the zemindars were fixedly assessed in perpetuity and the havelly lands were converted into large estates sold by auction as zemindaries.

Being identical in pattern, and the conditions of agriculture not different, the settlement shared here the same fate as it did in Bengal, in fact much more quickly. Within

* 'Portions of territory which were not in the hands of zemindars but in those of government, and in which it was therefore optional to adopt any system of management for collecting the land revenue from the ryots, that may be preferred.'—*The Fifth Report*.

† The northernmost districts of the present Madras province.

¹ See *The Fifth Report*, p. 109.

a few years of its working the collectors had reports ready to tell of its failure.¹ Such a consequence was becoming more and more marked in Bengal as years passed on. As this failure, disillusionment and chaos pressed hard against the march of imperialism there emerged new thoughts, new justifications and new proposals, to keep steady the tottering dual need of the Company,—prosperous agriculture and regular flow of revenue. One fundamental lesson was soon learnt, and that was that as long as the state did not see to it directly that cultivation improved, improvements rested ultimately upon the ryot, whatever the system of land tenure. It had been observed that the zemindar could not effect improvements through eviction, either to give the land to another or by increasing rents, and he did not adopt positive methods to effect it as was contemplated. "The improvement of the lands now held by them (the ryots)," wrote Mr. Thackeray in a memoir of April 29, 1806, "will depend upon themselves, not on the zemindar. Besides, improvements in lands now under cultivation can only arise from the superior management of the occupant. . . . I hardly think that any of the new zemindars have or will apply other capital, which before was employed in different ways, to the improvement of the lands. Improvement must, I conceive, arise from the stock and spirit of the cultivating inhabitants."² So, since upon these progressive improvements rested ultimately the regular flow of revenue, whether it be collected directly from the ryots or indirectly through the zemindars, it was proposed to eliminate the latter method as well, and conclude settlements directly with the ryots (Ryotwari). Sir Thomas Munro in a very able and persuasive report of August 15, 1807, in favour of the ryotwari, argued that it was conducive to agricultural pros-

¹ See *The Fifth Report*, pp. 163–164.

² *Ibid.*, pp. 918–919.

perity; "because" he wrote, "every ryot will on his own estate, be at once proprietor, farmer and labourer. . . . It is better calculated to promote industry and to augment the produce of the country, because it makes more proprietors and farmers and fewer common labourers than the zemindary or the mootahdary* scheme; because the ryot would be more likely to improve his land as a proprietor than as the tenant of a zemindar . . . the small proprietor being a better manager and farmer and more immediately interested than the great one in the cultivation of his land, would bestow more pains upon it and make it yield a more abundant crop . . . the remission going at once to the ryots it would improve the circumstances of the class of men from whom the revenue is principally drawn and would enable them to raise a greater quantity of food. . . ."¹ Such despatches from their servants in India based on historical experiences seemed to impress and perturb the home authorities. The warning of caution which they produced in them was quite remarkable in intensity: "It has received no small confirmation," the Court of Directors wrote in a despatch of December 11, 1811, to Fort St. George, "from the experience which we are sorry to say has been recently afforded us, of the frequent failure of assessments formed on the principle to which we allude (permanent settlement), in our possessions subject to your immediate authority; and we hereby think it proper to restrict you from concluding any settlement of a district in perpetuity, without having previously received our specific sanction for that purpose."² In a revenue letter to Bengal the next year, the Court said: "It was indeed imagined, at the period of the establishment of the Bengal Settlement, that . . . in proportion as the

* Petty zemindari.

¹ *Selection of Papers*, Vol. I, p. 97.

² *The Fifth Report*, p. 159.

land was improved, activity given to commerce, and as the people were enriched . . . that our revenues might be made to advance in equal proportions with the prosperity of the country, and that both would go on flourishing in rapid progression. We are afraid, however, that this calculation was rather too sanguine. . . ."¹ In view of such doubts, combined with the eulogies of the ryotwari system they were getting from their servants in India, the home authorities changed their opinion as to the suitable land tenure. For the territories, other than those permanently assessed, that had been and were being annexed in the Madras province, they ordered, in the despatch of December 16, 1812, the introduction of the ryotwari system.

The principles involved in the ryotwari were the directness of the relation between the state and the ryot, in general, and the right of the state to any increase in revenue that may result, in particular. Its introduction meant the acceptance of the hope that the ryot, freed from the bondage of the zemindar, would improve cultivation, and consequently, not only would revenue be forthcoming regularly but the increase, which had been sacrificed under the permanent settlement, would go to the state instead of to the zemindars. This latter was quite a strong consideration which prompted the administration to adopt it. However, the actual working of the system was a chronicle of frustration. All that happened was that the zemindar was replaced by the state as the sole authority over the working of the agricultural economy. And the state simply kept up the tradition of the zemindar. It participated as little directly in cultivation as the zemindar used to. Of the benefits created by the state, there was practically none that went to the ryot under the ryotwari that did not go to him under

¹ *Selection of Papers*, Vol. I, p. 4.

the zemindari. He being the tiller of the soil the benefits of irrigation, tanks etc., went to him irrespective of the system of tenure. Forced by the economic circumstances, the state now enhanced rents itself, where previously it was supporting the zemindar doing so. As a coercive power to force revenue collections it was no less active than the zemindars. This does not mean that the ryotwari system was not taken by the Company seriously. The home authorities were alive to the need of working it with caution to extract out of it their dual need,—prosperous agriculture and regular flow of revenue. They were despatching instructions at frequent intervals that assessments ought to be reasonable and within the ability of the ryots to pay, that the collectors ought to be considerate in effecting collections and that if ryots wanted to emigrate from their lands they should not be prevented from doing so. But the administration in India could not but become responsible for the evils and irregularities that followed, because the system involved no fundamental change as far as the dual need of the Company was concerned. The Court of Directors in a despatch at the beginning of 1822 wrote: "In his letter dated September 7, 1816, he (Mr. Sullivan, a collector) says: 'When a ryot has occupied and paid rent for land for two years he is considered as its proprietor, and is in fact saddled with the rent of it as long as he can pay.' It hence appears that his character of proprietor was fixed upon him by the government for its own advantage and not for his, viz., that he might be made responsible for a certain amount of rent. There are many other proofs that the short period of two years sufficed to convert possession into this kind of property. The collector justly observes that this mode of compelling a man to hold the character of proprietor of whatever land he had cultivated for two years, was, on the part of Government, a very

questionable policy. 'It operates,' he says, 'as a check to cultivation, because a ryot is deterred from taking advantage of a good season for the extension of his farm, from the apprehension that if the succeeding should be a bad one the land will be fastened upon him.' The inconvenience, on the other hand, of giving up this system, which, as Mr. Sullivan states, 'by no means arises out of, or is peculiar to, a ryotwar mode of management,' but is also acted upon by renters and zemindars, is not overlooked by him, viz., that a great portion of the land which pays rent being abandoned, the revenue would be impaired."¹ The result of this situation was that the ryots were coerced not to abandon the land, and where they were not the assessments were enhanced to make up any loss that might result if they did so. Besides, many other violations of the principles of working the system were caused, and in fact the purely monetary side of agriculture was taken, ignoring what may happen thereby to its prerequisite—progressive cultivation. In the same despatch, the Court of Directors observed: "The additional tax upon land watered by wells or cultivated with garden produce is justly represented by the collector as a tax upon improvement. . . . All the encouragement necessary would be to allow the people to reap the fruits of their own labour; for the collector describes them as prone to the formation of wells, but deterred by the tax. The same considerations apply to the cultivation of fruits and other garden produce, taxed on the same impolitic plan.

"The inconvenience attending the mode of taxing arable and grass land was also found to be considerable. A certain quantity of cattle is required to cultivate and fructify a certain portion of arable land, and hence a certain proportion of grass land is a necessary part of each *putcut* or ryot's

¹ *Selection of Papers*, Vol. III, p. 502.

possession. If, however, the grass land is taxed high as compared with the arable, the ryot is tempted to lessen the quantity of cattle and thus to injure the quality of his arable land. If it is taxed low, he turns his attention to the rearing of cattle, and the revenue suffers by diminished cultivation. This too is evident, that the labour and capital of the ryot are, in this mode of taxing, continuously liable to be turned out of their most productive channel, that in which they would flow spontaneously if left to themselves, and the general produce of the land and labour of the country is thereby kept down below the standard to which it would otherwise ascend."¹ This was indeed a full awareness of the condition of the agricultural economy. But it is not so much the awareness itself as the policy the home authorities dictated in spite of it that is revealing. In a revenue letter written on August 18, 1824, the Court instructed that "the lands ought to be assessed according to their capabilities, not according to their actual culture."² This indicates an awareness which was of more fundamental importance to them, that of their dual need. They recommended this as a last resort to force intensive and extended cultivation, which alone through regular flow of revenue could support imperialist expansion. But when it was adopted in India it fell on an agricultural economy that was already groaning under the evils of forced cultivation. As Sir Thomas Munro, in his minute of December 31, 1824, observed, "the ruling power (before the British) always endeavoured to encourage, or rather to force the extension of cultivation, as a plea for drawing a larger revenue from the country. The result of such a system pursued for ages has been what was to be expected, namely, that the extent of land in cultivation and paying revenue is much too great for the agricultural stock

¹ *Selection of Papers*, Vol. III, pp. 502-503.

² *Ibid.*, p. 506.

of the country; that every ryot has more land than he can properly cultivate. . . . This is the state of cultivation generally throughout the Deccan, and it was, and still is, in a great degree that of most of the provinces which have fallen by conquest under the authority of the Madras Government."¹ So the action taken meant a burden which the economy could not bear, namely, over-assessment. No better authority can be cited for this than Sir Thomas Munro himself, the enthusiastic protagonist of the ryotwari system. In the same minute, under the heading 'State of the country and condition of the people,' he wrote: "In order to make the land generally saleable, to encourage the ryots to improve it and to regard it as a permanent hereditary property, the assessment must be fixed, and more moderate in general than what it is now."² The Company's servants, with all the zeal of the burdened white man to 'do the duty' of collecting revenue, often harassed the ryots. The ultimate result was a deteriorated, or rather a continuation of a deteriorated, agricultural economy.

So the ryotwari plan of settlement failed to bring about those results for which it was intended. Out of this failure, out of the economic circumstances that could not by their nature acquiesce in failures, emerged again a new philosophy of land revenue administration. We saw how the enthusiasm of the home authorities for the permanent settlement waned away. This was confirmed as years passed on. But in Bengal, about 1810, there was a strong feeling in the government circles in its favour. The reason is not far to seek. The revenue officials were observing what a heavy responsibility for revenue the ryotwari system had meant to the collectors. It was a discouraging observation. While the administration made the condition of cultivation no better,

¹ *Selection of Papers*, Vol. III, p. 613.

² *Ibid.*, p. 609.

it expected its servants to raise the required revenue. The government also thought likewise. The condition of agriculture being not much different in the case of both systems, it preferred to get what revenue could be got through the zemindars to worrying for it directly. Knowing the revenue needs as it did, it saw greater security in the fixed assessment with the zemindars, in spite of irregular collections, than in the wild-goose chase with the ryots. So the Bengal government was pleading in its despatches to the Court of Directors for permission to extend the permanent settlement to the new territories that were being annexed, the North-Western Provinces* (also called 'the ceded and conquered provinces'). But it pleaded under the cloak of a different reason. About the same time in Bengal the unsatisfactory results that had followed the permanent settlement were a little in abatement. The zemindars in their own interests lessened exactions, since the tenants would abandon cultivation if they did not do so and they would get no rents at all. This the government bolstered up as the dawn of a new era of agricultural prosperity and regular revenue collections. The Court, however, did not become convinced, and in its replies warned the Bengal government that no extension of the system to the new territories should take place, no pledges be given to that effect, not even hopes of it raised while concluding temporary settlements: "We must again pointedly apprise you," the Court of Directors wrote in a revenue letter of August 1, 1821, "that we are not prepared to assent to the opinion to which, you say, you have unanimously come, 'that the system of a permanent settlement of the land revenue, either upon the principle of a fixed jumma,† or of an assessment determinable by a fixed and invariable rate, ought to be extended to the ceded and

* The present United Provinces.

† Total assessment.

conquered provinces'; and we distinctly repeat the injunction . . . against any permanent settlement of land revenue; and we desire that you will abstain not only from making any such settlement, but from taking any measures which may raise the expectation that a settlement in perpetuity will hereafter be formed."¹ Thus the permanent settlement plan was finally shelved, and the ryotwari did not carry with it the promise required for an extension. Its effect on the material conditions did not work towards the promotion of the Company's dual need. So it produced a revision of thought in keeping with the new material conditions and their impact against the dual need of the Company. Thus Sir Thomas Munro had to write in his minute of December 31, 1824: "It is not necessary that we should have either permanent settlements with the zemindars or leases with the ryots: neither of them is the usage of the country, and neither is requisite for the security of the revenue or the benefit of the ryot."² This was in effect a recommendation to abandon the ryotwari system by its prime mover himself. The result was the creation of a plan, the Mahalwari (Village-Estate settlements) system, which sought to combine the better aspects of both. Under this, 'the estate or group of holdings, owned under one title, i.e., by a single owner, or by a community or proprietary body, is the unit of assessment, as opposed to the ryotwari method under which each field or individual holding is separately assessed.'³ By this method it was sought to ensure a stable revenue income as was expected of the zemindari, at the same time maintaining the directness of relations as in the case of the ryotwari. Though middlemen and bodies were created by the state

¹ *Selection of Papers*, Vol. III, p. 213.

² *Ibid.*, p. 612.

³ B. H. Baden Powell, *Land Systems of British India* (1892), Vol. II, p. 30.

between itself and the actual tillers of the soil, they were not vested with the perpetual rights of the Bengal zemindars; and though the state reserved to itself the right of direct management of the agricultural economy, it did not worry itself with cultivation and revenue collections as it had to under the ryotwari. Though the cultivation was to be carried on in severalty, the responsibility for paying land revenue was joint. Thus the mahalwari was eminently a *via media* device adopted after the failure of the other two. But it involved no change in fundamental principles, just as the other two also did not. It was prompted by the same necessity to keep going the dual need of the Company,—prosperous agriculture and regular flow of revenue, and the same desire to escape direct participation in the agricultural economy. So it inevitably failed to produce the needed results, which led to further experimentation in the modes of assessment. The history of these will not, however, be continued here. Because the three systems which we have now surveyed were evolved as *different original systems*, whereas the minor varieties that followed the mahalwari were only modifications of these three major ones. These three constitute the structural basis of Indian agricultural economy. We have looked at them through history, the history of imperialism.

2.

All agricultural land in India must come under one or other of these three systems of land tenure. So the present condition of the agricultural economy is mostly the result of the working of these systems through the decades. It is said 'mostly' because one other force has operated to a very small degree on Indian agriculture since a comparatively recent date. And that is the force of trade, internal and

external, in those agricultural products which are the raw materials of industry. Thus, jointly, the land systems and trade are wholly responsible for all aspects of the present agricultural situation.¹ An attempt is made in the following pages to elucidate how these have shaped Indian agricultural economy. Only the necessary features, which are also the salient, are chosen, and the account is sketchy since it goes with the preceding historical survey as its illustrative supplement, and not as an independent study. The illustration is through the four tables and the graph that follow. All the five are intended to be taken jointly for purposes of illustration.

Of the net surveyed area, forests and area not available for cultivation (i.e., 'land absolutely barren or unculturable or covered by buildings, water, and roads, or otherwise appropriated to uses other than agriculture'), cover nearly a third. Roughly another third is made up by culturable waste and fallow land, and the last third is cultivated. The land coming under the last two categories is 'agricultural land.'

It will be noticed in the following table that the percentage

¹ The work of the agricultural departments of the central and provincial Governments since the beginning of this century in the field of research and its application has not been a force on the agricultural economy; nor the modern banking activities and the legal measures of the state, which are only ameliorative. Much less should these be taken as an indication of agricultural progress which is judged only by their effect on production, the general agricultural situation and the peasantry taken together as a single unit. Professor E. M. East of Harvard has written that "a thoroughly modern department of agriculture is seeing to it that Indian farming is progressing in a most marvellous manner" (*Mankind at the Crossroads*, 1928, p. 88). This is a typical example of such a reading, which tends to infer the progress of agriculture from the modernity of the departments. Such ecstasies are not based on facts, and when they come from academic men, far from advancing the cause of knowledge, do greater harm than when they come from others.

proportions of the net sown area and culturable waste have not undergone any significant change. At the end of the last period the increase over the first in the net sown area was 37·1 per cent absolutely, but relatively a decrease of

TABLE I
EXTENT OF CULTIVATION
(British India and Indian States)

Million Acres

Quinquennial averages	Total agcl. land (A + B)	A: Net area sown with crops	B: Culturable waste	Percentage	
				A	B
1900-01 } 1904-05 }	334	218	116	65·3	34·7
1905-06 } 1909-10 }	360	236	124	65·5	34·5
1910-11 } 1914-15 }	383	252	131	65·8	34·2
1915-16 } 1919-20 }	386	258	128	66·8	33·2
1920-21 } 1924-25 }	446	284	162	63·7	36·3
1925-26 } 1929-30 }	463	292	171	63·1	36·9
1930-31 } 1934-35 }	471	299	172	63·5	36·5

1·8 per cent. There occurred however a small relative increase at the end of 1920. But this is as negligible as the decrease; and the short fall in the relative figure between the war and post-war periods was due to the impact of post-war conditions on agriculture, since vagaries of monsoons

and famines have been a common factor for all the periods. So, the nature of the extent of cultivation may be said to be that the extent of cultivation has remained constant in relation to the area made available for cultivation from time to time. It has been pointed out previously (p. 49) that though a good proportion of the area classified as 'culturable waste' cannot be brought under the plough, there must obviously be scope in it to extend cultivation. And the scope could not possibly be just so much as will keep its ratio to the net sown area constant, with such consistency over a period of thirty-five years. There must have been scope for the rate of increase of the net sown area to outstrip that of the culturable waste. And since this has not occurred it cannot be said that there has been any real progress in the extension of cultivation.

The share of the important crops in the net sown area is studied in Table II. In taking notice of the slight increase or decrease in proportions, allowance will have to be made for famines which may affect particular crops in particular areas at particular periods. Besides, the returns of acreage under each crop are not uniformly accurate. In not a few cases they are only approximate. So the slight variations, which in most cases are below 2 per cent, are not indications of change in the nature of crop distribution. However, the variation in the proportion of total areas under food and non-food crops is a little prominent, being about 5 per cent in favour of the non-food crops. The non-food crops have gained this mainly at the cost of the area under rice among the food crops. Rice sharing the largest single crop proportion, and its cultivation being most widespread, its area was in easy access when the cultivation of commercial crops was extended. Cotton and oil-seeds (among oil-seeds groundnut particularly), have mainly contributed to the increase

TABLE II
NATURE OF CROP DISTRIBUTION
(British India and Indian States)

Crops	1900-01 1904-05		1905-06 1909-10		1910-11 1914-15		1915-16 1919-20		1920-21 1924-25		1925-26 1929-30		1930-31 1934-35	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
<i>Food crops (Total)</i>	205.1	85.1	221.4	83.7	236.0	82.8	243.0	83.0	258.8	81.3	259.0	79.4	269.6	80.3
Rice ..	71.4	29.6	76.2	28.8	80.2	28.1	82.0	28.0	82.6	26.0	82.8	25.4	84.4	25.1
Wheat ..	22.0	9.1	23.8	9.0	28.4	10.0	28.2	9.6	28.6	9.0	30.4	9.3	32.2	9.6
Jowar ..	24.6	10.2	25.6	9.7	24.4	8.5	28.8	9.8	37.8	11.8	35.4	10.8	36.6	10.9
<i>Non-Food crops (Total)</i>	35.8	14.9	43.0	16.3	49.0	17.2	50.0	17.0	59.6	18.7	67.0	20.6	66.0	19.7
Cotton ..	11.8	4.9	14.2	5.4	16.6	5.8	16.6	5.6	20.6	6.5	23.2	7.1	21.0	6.2
Jute ..	2.4	1.0	3.4	1.3	3.0	1.0	2.6	0.9	2.0	0.6	3.2	1.0	2.2	0.7
Oil-seeds ..	14.4	6.0	14.8	5.6	17.0	6.0	15.4	5.2	19.0	6.0	21.6	6.6	23.2	7.0

A: Average annual area (million acres) for the period. B: Percentage to total sown area.

TABLE III
PRODUCTION

Index Numbers of the Estimated Yield (Quinquennial Average) of Principal Crops

Crops	1900-1901 1904-1905	1905-1906 1909-1910	1910-1911 1914-1915	1915-1916 1919-1920	1920-1921 1924-1925	1925-1926 1929-1930	1930-1931 1934-1935	Average 1905-1906 1934-1935
Rice ..	100	103	132	148	143	141	146	136
Wheat ..	100	105	126	121	117	116	122	118
Sugarcane ..	100	99	117	140	137	145	214	142
Cotton ..	100	125	136	137	152	176	149	146
Jute ..	100	115	129	113	90	146	114	118
Linseed ..	100	80	122	104	106	89	96	100
Rape and Mustard ..	100	98	121	106	110	94	97	104
Ground-nut ..	not available	100	183	244	300	623	740	418

TABLE IV
EXPORT

Percentages of Exported Quantities to Total Production (Quinquennial Averages)

Crops	1900-1901 1904-1905	1905-1906 1909-1910	1910-1911 1914-1915	1915-1916 1919-1920	1920-1921 1924-1925	1925-1926 1929-1930	1930-1931 1934-1935
Rice	9.2	8.5	7.1	4.7	5.9	7.2	6.2
Wheat	11.2	9.2	12.4	6.4	5.0	1.8	0.5
Cotton (raw)	50.5	54.7	56.8	46.2	63.6	63.4	61.4
Jute (raw)	53.1	51.5	44.4	33.8	50.6	42.9	45.4
Linseed	92.5	72.8	78.0	59.1	62.5	60.4	53.3
Rape and Mustard	22.1	21.0	18.6	9.2	21.0	8.6	6.6
Ground-nut	not available	26.9	31.4	12.9	23.0	26.3	20.8

in the proportion of the area under non-food crops. The extension of area they caused was gradually established. This was the result of the operation of the force of trade, but more that of internal trade than external. For in the case of cotton the quantity of output increased faster than the quantity of exports, and even during some periods when the proportion of exports fell, the output continued to increase (Tables III and IV). The expansion of the cotton mill industry in India explains this trend. The same observation applies to a greater degree in the case of the oil-seeds also, as can be verified by correlating the trends in their respective output and export. In the case of linseed and rape and mustard, during the periods when there occurred a fall both in output and export, the fall in output was not proportionate; it fell much less than the exports. An increasing internal demand prevented such a proportionate fall.

Of the remaining crops in Table III, jute being a monopoly crop, its output and area are entirely dependent upon the industry.¹ But even in its case it is more the force of internal than external trade that has operated, as can be seen by the same process of correlating its export and output. The increase in sugarcane output is the result of the expansion of the sugar industry in India. The export of the food-grains wheat and rice has no significance. Though the actual export of these may be determined by other factors, their quantity available for export is regulated by the internal demand, because it is the surplus quantity left after the internal demand is met² that is available for export. And over a series of years the quantity actually exported tends to

¹ See *infra* p. 131.

² It must be pointed out here for the sake of clarity that this is not the same as saying 'after the internal needs are satisfied,' because, the total demand is usually less than the total need as a result of the low purchasing power.

approximate to this surplus. That is why nearly 90 per cent of the exported quantity goes from Burma where the output is too much in proportion to the demand of the rice-eating population. Wheat exports are dwindling for the same reason.¹

There has occurred an increase in the output of all the crops in Table III (except linseed) as well as in that of a few other important crops such as jowar, not included in the table. But this is no indication of an improved cultivation. The increase is due, as the Agricultural Commission also confessed, to the expansion of irrigation and spread of cultivation, "and it is doubtful if any appreciable increase in the yield can be attributed to the adoption of better methods of cultivation or the increased use of manures."² This observation is borne out by facts in both its aspects. Firstly, regarding the spread of cultivation, let us take together the average increase between 1905-1906 and 1934-1935 over the first period, of area as well as output. In the case of some crops the increase in yield has outstripped the extension of area under cultivation and in the case of some others the opposite has occurred. But it may be said that these two sets have balanced each other to keep the average increase in yield fairly proportionate to the average increase in acreage on the whole. This can be seen in the table on page 86.

Secondly, regarding a better exploitation of the soil, let us consider the trend in its productivity which is by far the best index for judging this aspect.

The following graph is an attempt to express the trend in the productivity of the Indian soil. It refers only to British India and the Mysore State. Sixteen crops covering nearly 90

¹ This is due to an increase in the wheat-eating population rather than to any rise in purchasing power.

² *Report*, pp. 13-14.

per cent of the net area sown have been taken. The data on which the graph is based were neither adequate nor perfect (see Appendix B), which also explains its rough form. So the

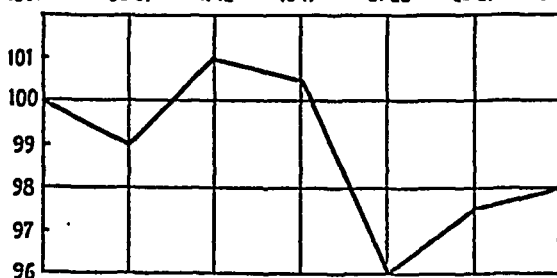
Average Percentage Increase

Crops	Area	Yield	Crops	Area	Yield
Rice ..	50	36	Sugarcane ..	17	25
Wheat ..	20	18	Tea ..	30	69
Jute ..	22	18	Cotton ..	38	46
Rape ..	9	4	Linseed ..	-7	Nil
Sesamum ..	5	Nil			

conclusions that can be drawn are safer when negative. According to the graph the productivity index has been moving between the minimum of 96 and the maximum of

Quinquennial average

Period ending-1901-02 06-07 11-12 16-17 21-22 26-27 31-32



101. That is, during the thirty years from 1902, while the maximum it has gone up is by one per cent, it has gone down by four. It stands at present (1932)¹ 2 per cent below where it stood at the beginning of the century. Even ignoring the lapses in the source material, this is not significant

¹ Statistics since 1932 are not yet available.

enough to say that the productivity has on the whole deteriorated. But it can be said without hesitation that it has *not progressed*; it can be said to be on a stable level.

There is something to be said about this stability of its level. In other countries a constant average yield per acre over a long term of years is not a sign either of non-prosperous agriculture or deterioration, because the *level* of that yield has gone up high.¹ But in India it certainly is an indication of both, because the level of the average yield per acre of most of the crops is very low both absolutely and relatively.² A low productivity at the starting point was itself a sign of non-prosperous agriculture, and its constancy where and when it ought to be improving is deterioration.

This low level of productivity is not all that the Indian soil is capable of. Technical opinion does not seem to hold such a view. It can take in soil improvements and yield more. The fact that a higher level of acre-yield has not come about substantiates the observation made previously that the activities of the agricultural departments in the field of research and its application have not been a force on the agricultural economy. They have not been a force even to the extent of contributing to *maintain* the level of productivity stable; for the Agricultural Commission wrote: "That they (Indian soils) are maintained at a low but stable level of fertility as a result of the large annual increments of nitrogen which *accrue from natural recuperative processes*

¹ In the United States, for example, "there has been no increase in crop acreage for fifteen years, nor in acre-yields of the crops as a whole for thirty years, yet agricultural production has increased about 50 per cent since the beginning of the century."—*Recent Social Trends in the United States (Report of the President's Research Committee on Social Trends)*, 1933, Vol. I, p. xviii.

² See Appendix C.

in the soil has been established by work done in all provinces. . . ."¹

Thus, the agricultural economy extended itself but did not progress, i.e., in content, as the productivity study would indicate. Now, to sum up, the change of form the extension has introduced is not even remotely significant as a real change, and the change in content that export and output have introduced are measurable only in their effect on the form—the nature of crop distribution. The force of trade operated upon this only to the extent of causing a 5 per cent variation in the proportion of food and non-food crops. That is why it was styled at the outset the force that has operated 'to a very small degree.' This force not being sufficient to jeopardize it, the outstanding feature in the structure of the agricultural economy remains the constancy of its nature. This constancy is the direct result of the systems of land tenure. They have shaped the agricultural economy as such. The contradictions involved in the systems of land tenure are borne out by this constancy of which we have taken a coherent view.

The corollary of the above observation explains the future: The structure of the agricultural economy, both in its form and content, remains constant in nature as long as the present systems of land tenure exist. Historically they were created by imperialism for its dual need,—progressive cultivation and regular flow of revenue. The need is the same even now, except that the revenue has to support only administration and no expansion. They have failed to cause a progressive agricultural economy but still they are being maintained with modifications since through them the responsibility of the state for cultivation is avoided. They are meant for realizing the revenue need. They are

¹ *Report*, p. 77. Italics mine.

approached by the administration to the maximum extent for this purpose and to the minimum extent to see that they keep up the prerequisite of a regular flow of revenue—progressive cultivation. But as they are not keeping up the latter, and the revenues are still being made to flow, the process admits of suspicion. While the systems of land tenure themselves are enough to keep the nature of the structure of the agricultural economy constant, the monetary exploitation for which they are the medium may contribute a deteriorative trend to it.

IV

THE NATURE OF INDUSTRIALIZATION

I.

The history of Indian industries since the seventeenth century reveals the many ways in which they have been continuously the tools of imperialism. In their handicraft stage they were exploited for purposes of consolidating political settlement and trade. In their capitalist form they were exploited to maintain the prosperity of home capital. They were resorted to again and curbed, though indirectly, when their capitalist phase proved to be a contradiction within imperialism.

A country intending economic domination of another has never found its strategy useful until it dumped as many of its men and as much of its capital as possible into the industrial field of the victim. Mere trade would not go very far since that could be done from a distance on strict business grounds, and it would leave no effective pretext whatsoever for a claim to permanent colonial expansion. Besides, for trade itself to become the chief activity of imperialism, a certain extent of political subjugation is necessary, and for this a preliminary economic penetration is an auxiliary. The British conquest of India was not of course the result of monopoly capitalism seeking markets, though the basis of the earliest armed conflicts with native powers, particularly in Bengal, was economic exploitation. But when the mother country developed an industrial capitalism its task was only made easier since it possessed an already conquered terri-

tory, thus avoiding the necessity of fighting for it to gain a market. As the state at home became what capitalism made it, its imperial branch automatically became the preserver of a precipitated capitalism.

The more Great Britain's men and money permeated the industrial organization of India in the earlier century of the Company's rule the more firm was the basis of their claim to privileges mainly political. Such a mixture produced, in particular, growth of two kinds. Firstly, the Company proved by it their necessity to stay in India, because, they said, they had industrial interests here. Secondly, it produced the need for a government with steadily expanding administrative functions to 'safeguard the interests' of those thus settled. This permeation was made through many doors and in gradual stages. They sought first to organize the indigenous manufactures by facilitating the supply of raw materials to them and providing them with services of foreign experts. Writing in a despatch in 1668, the Directors of the East India Company observe: "Encourage the natives and invite them to come thither (Bombay). We would also have you put the natives upon the making of such calicoes as they are capable of; . . . and lest they want cotton for that purpose, we would have you to procure the bringing of it out of the country, or the conveying of it to them by the sea. We would willingly have some manufacture under our own Government. . . ."¹ To encourage the manufacture of sail-cloth they sent two hemp-dressers, one or two spinners and weavers, with instructions to introduce their technique among Indian weavers, and a decade later they despatched throwsters and dyers to the silk industry. The various silk manufactories in Bengal, at Cassembazar, Patna, Malda, Hugly and Balasore, were co-ordinated and

¹ S. A. Khan, *East India Trade in the 17th Century* (1923), p. 153 et seq.

systematized. The Company lent out money to the needy workmen. But this was only a humble beginning. The next century saw the Company smuggling itself into the Indian industries through the financial door with all the complexities it involved. The native factories usually functioned upon the orders placed for their products and with the aid of money advanced with such orders. Large sums of money were advanced to merchants who would purchase goods from these factories on behalf of the Company, the process being technically known as 'the investment.' The investments were being fed in the earlier stages with the surplus from revenue collections. But they were not being contracted because there happened to be this surplus: "As large an investment as possible to be continued, raising what money is needed by loans," instructed the officials at home in a despatch in 1746;¹ and the instruction was very frequently repeated in further despatches. The investments were continued even with specie imported from England. The replies they received from India go to show that the factories were kept well supplied with money. This looks outwardly a very docile practice. But it made or marred the fate of weavers and indigenous factories. The Company aimed at a virtual monopoly of the demand. The officials in India always took care not to give other trading powers opportunities to have a substantial investment. They did not mind even deficiencies in quality in the purchase of goods to effect the above purpose: They wrote in 1751: "In May last agreed to take in the best of a considerable parcel of cloth turned out, though somewhat wanting in length and breadth. The Company have since granted this liberty which may in time prejudice the manufacture. The French and Danes snatch it up.

¹ Henry Dodwell, *Calendar of the Madras Despatches, 1744-1755* (1920), p. 30.

It is for the Company's advantage to take it with an allowance for defects."¹ That they were ever vigilant over the extent of French investments is evidenced by the constant references they make to the French investments being 'very little,' 'not considerable,' etc., in their despatches to England. Such a comprehensive control of demand meant everything; control of merchants, terms of contract, prices, quality and quantity of output. The merchants were at the Company's mercy. If the latter refused to contract it would be extremely difficult for them to find another wholesale market. The officials were quite conscious of this when they wrote: "Were the present substantial merchants to be laid aside, it would be their ruin. . . ."² The ruin of the merchant meant in turn the ruin of the weaver and the industry since both depended upon the first for the sale of their products. So these officials who held such a key advantage in bargaining were being constantly instructed by their heads at home that the quality of cloth should be improved and prices reduced while contracting. Such a policy naturally meant low profits both to the merchant and the weavers. But the merchants had no other alternative but to forgo some profits.³

Under such conditions the position of the merchants

¹ Henry Dodwell, *Calendar of the Madras Despatches, 1744-1755* (1920), p. 136.

² Ibid.

³ Thus when they accepted the contracts of the Company by sheer necessity, the officials attributed an ingenious motive to it: "The practice always has been to invite the most substantial merchants to take up the investment," they reported in a despatch in 1754, from Fort St. George, "which they did, less for profit than for the 'gratification of a peculiar vanity' of being considered company's merchants. The wearing of a long coat, a couple of peons with the company's badges and other little marks of distinction, are privileges on which they set a high value" (Ibid., p. 241),—a reason by itself absurd, and much more so in the light of their own previous despatches, in which they clearly indicate the enslavement of the merchants and industries to the Company.

became precarious. When they discovered that their fortunes were liable to violent fluctuations they hesitated to continue as independent merchants bargaining with customers always possessing the upper hand. They preferred to become salaried agents of the Company, which position gave them greater security; and thus developed the 'gomastah system,' the gomastah being such an agent. The gomastah as an independent merchant was hitherto on the supply side along with the weaver and shared with him the oppression from the demand side. Now that he made his position secure by joining the latter, the burden of tyranny fell completely upon the weaver. His co-sharer of woes not only withdrew from but also fell upon him. Here is a picture of it: "Usually a native gomastah was employed. But there were objections to them. The gomastahs constantly abused their position and the authority of the Company to oppress the weavers and to speculate on their own account, even disposing of the Company's goods to other traders. They forced contracts upon the ryot, will he, nill he; for when a piece of cloth was finished, if not before, the price had often been consumed in subsisting the weaver and his family, and he had no resource but to enter into a fresh agreement on the contractor's own terms. A constant device of raising these was to depreciate the finished cloth; . . . if the (specified) standard was not reached in a given piece the gomastah lowered the price correspondingly. . . . Often the price was fixed at 15 per cent and sometimes as much as 40 per cent below what it would have been in the open market, and so these officials reduced the weaver to practical slavery at sweated work. If the native tried to sell the cloth, already contracted for, to others who offered him a fairer price, the Company's authority was employed, peons were set over him to watch the progress of the work and

prevent such a sale, and the gomastah would even cut the piece out of the loom, when it approached completion and carry it off to the *khattah* or warehouse."¹ This state of affairs gave an opportunity for a further and more direct domination of the industries. When Hastings was appointed to Madras in 1771, he sought to improve matters and gave powers to the warehouse-keeper to check the high-handedness of the gomastah. He was allowed a share in the profits of the commission for the trouble. The warehouse-keeper, being the Company's own man, and having the gomastah under his authority, became practically the dictator of the industries.

While such was the activity of the Company's agents, that of the agents of private traders was worse. In Bengal when Vansittart was Governor he received numerous complaints during 1762 from the Nawab and other public men about the autocracy of these private traders' agents.² When with all the supposed control of the Company over them the Company's gomastahs were practising such methods, it is no wonder that the agents of individuals over whom the Company had no official hold indulged in grosser oppression of the weavers. Vansittart, however, hastened to record that such abuses were not practised by the Company's gomastahs.³ But the Court, obviously refusing to believe it, rightly, despatched an order to Bengal early in 1771 to abolish the gomastah system and revert to the method of contracting with independent merchants. When the next year Hastings went there he was confronted with this rebuff.

¹ M. E. Monckton Jones, *Warren Hastings in Bengal—1772–1774* (1918), pp. 38–39. This picture by Jones agrees almost fully with that by William Bolts in his *Consideration of Indian Affairs* (1722), and is probably drawn from that source.

² The letters containing these complaints are reproduced by him in his *Narrative of the Transactions in Bengal*, Vol. II (1766), Sections X and XI.

³ *Ibid.*, p. 241.

He was very reluctant to carry out the order. He was really afraid that an important footing would disappear. The complete official subjugation of the gomastah had brought with it as complete a command over the prices of cloth. There was nothing that could come in the way of the Company reducing prices to very sub-normal levels, except a condescending pity. The release of the gomastah, Hastings was afraid, would culminate in his revolt. There was the danger of the independent merchants forming effective 'combines' with other European traders to force contracts at unfavourable prices on the Company, though such prices would be more normal. He wrote back to the Court of Directors explaining these points and requesting a reconsideration of the order. But the latter pressed that it should be enforced, being convinced, by the members in Hastings' council, of the abuses practised by the Company's gomastahs, though Hastings concealed these and tried to defend the system. Just at the hour when Hastings was deploring the consequences of the action he was forced to carry out, he summoned that imperialistic resourcefulness for which he and Clive have established such a big reputation in Indian history. He schemed the establishment of a General Bank through which he discovered the possibilities of recovering the lost financial hold on the merchants and industries. "Being persuaded," he explained in a circular, "that the measure (of establishing the bank) will prove of the greatest utility and convenience not only to the Company in drawing the receipts of their revenues from the out-districts to the presidency, *but also to private merchants in making their advances to the aurungs (factories), and otherwise in facilitating and rendering secure the course and circulation of their trade, we have determined to adopt it.*"¹

¹ H. Sinha, *Early European Banking in India* (1927), p. 167. Italics mine.

The tone of this communication attaches greater importance to the second than to the first function of the bank. Lest this object should be scented by the home officials Hastings carefully concealed it under the cloak of the first. But his own colleagues in the council were the earliest to scent it. "It will appear to the conviction of every man who understands the true principles of such an institution," opined Philip Francis, "that this Bank neither has nor could possibly produce those great public benefits which would be sufficient to justify an innovation of such magnitude in the mode of remitting the revenue of Bengal to the Presidency."¹ The 'rendering secure the course and circulation' of the merchants' trade was indeed the central object of Hastings' scheme. The *course* of the trade of the merchants was mainly toward the Company, and the *circulation* between the factory, themselves and the Company. Since the abolition of the gomastah system the former two were not under the Company's service obligation and naturally the course and circulation of the trade had become insecure from the point of view of the Company, though the merchants and factories had now greater security in their freedom. So Hastings chose to bait these freed elements into the trap of his credit facilities. But unfortunately for his creative genius, the opposition majority in his council abolished the bank after it had existed for about a year and a half. Yet he did not repent long. On the other hand the Court of Directors repented for their order. They were alarmed at the rise in prices which was the natural consequence of contracts with independent merchants. This rise only proved that they had been kept artificially low under the gomastah system. So in March 1775, the Court of Directors revoked their order of 1771. The

¹ *Selection from State Papers, 1772-1785, Vol. I (1890), p. 208.*

interference in indigenous industry was resumed, now with additional encouragement from the Board of Trade.

This official entry into the industrial field is significant because, apart from its own value, it created certain conditions favourable for the later non-official entry which we will come to presently. Tracing the events further, the Company's activity in the field however continued to be purely destructive. Textiles being the chief article in their trade they meddled with that industry and never thought of any others. Little or no attempt was made by them to create and develop new industries, and others could not do it. For the powerful inducement for adventurers in one country to exploit the natural resources of another is the basis it affords to enter international trade in the commodity produced, and such an entry could not be sought by private individuals since the Company held the trade monopoly. This went for good with the Charter Act of 1813. But it meant little, because it was difficult for new entrants to compete with an established trade, and much more to establish new industries in India and build up trade in them. A few individuals made unsuccessful attempts to organize the metallurgic industries. Neither men nor money flowed freely into the country. So it continued for two decades until the Charter Act of 1833 abolished the trading rights of the East India Company. This date may be taken as the theoretical beginning of English industrial enterprise in India, though practically it took two more decades to commence with regularity. This act flung open a huge door. It had the effect of inviting every business man in England to have recourse to India. The stories they had heard about India's potentialities to make Englishmen rich gave them the required enthusiasm. In India at the time even the small enterprise

of the native industrialist had been paralysed, for his financial resources had been thinned to insignificance. "The grinding extortion of the English government has effected the impoverishment of the country and people to an extent almost unparalleled," wrote the Hon. John Shore in 1834, "while the ruinous system of inland customs and town duties has prevented the establishment of manufactures, and greatly lessened the activities of those that were in existence. . . . It is impossible that they can be retained much longer; and if not totally abolished, must at least be so modified as to allow the energies of the country some scope for exertion; and then the skill and capital of English artisans and mechanics may be fairly brought into action."¹ He clearly perceived that, more than enthusiasm, substantial finance was required to work out India industrially, and stressed the necessity and advantage of carrying capital before starting out to India: "The possession of some capital is almost a *sine qua non* for new settlers: they will find it extremely difficult to borrow of the native bankers and merchants, except by the temptation of such exorbitant interest that it would be ruinous. The reasons are . . . the great losses which the natives have suffered by their dealings with the English merchants, and the dread of being involved in any process of the supreme court. India is rich in natural resources, were they properly developed; but, in proportion to the extent of country and population, poor in money."² The few individuals that hoarded wealth would not lend it out yet for another reason. They were not quite confident of the East India Company's stability as a political authority. They hesitated to risk their money in investments under a rule which they apprehended would be overthrown by some

¹ *Notes on Indian Affairs*, Vol. II (1837), p. 32.

² *Ibid.*, p. 31, note.

other power.¹ So the rule of the Company was itself responsible for creating conditions which invited economic penetration. Once it began it was welcomed and assisted.² Even in the matter of taxation external capital had very little to fear.³ Thus it was a happy combination of circumstances for the English capitalist. His industrial enterprise would be worth while for himself because he could trade; his risks were not considerable because the state was with him; he was likely to be a success because he had no native competitors. It was against this background that his activities commenced.

Such was the material background in India which was

¹ See the evidence of Mr. Murray Gladstone before the Select Committee of Parliament on Indian Territories, *Fifth Report*, 1853:

Q.8018—Is not there a great want of enterprise on the part of the natives?—A very great want of enterprise (in those of Bengal) but very much of that may arise from a prejudice which it is difficult to get over; . . . They do not know perhaps that the rule of the East India Company is permanent; that feeling possibly may operate in preventing them from laying out capital; . . . (Q.8020) it is a feeling that India rests upon not a perfectly secure basis; they have heard of the great changes which have taken place; they do not know that another equally great change may not come and sweep away all their property (p. 36).

² "I remember having a conversation with Mr. Macaulay at the Government House in Calcutta," observed Mr. Julius Jeffreys before the above Committee, "who was very sanguine that the provisions of the late charter (of 1833) would lead to the development of the resources of India in various ways, and mainly by the introduction of European skill and capital" (*Ibid.*, p. 3).

³ Sir Charles Trevelyan who was for nearly twelve years connected with Indian finances spoke thus before the above committee in his evidence: "I rely upon that financial process (for making the financial administration yield a surplus) which has been attended with such admirable effects in this country (England), namely, relieving the springs of industry, and adjusting taxation so as to interfere as little as possible with the application and productiveness of capital. So far as that system has been attempted in India it has been attended with equally satisfactory effects" (*Ibid.*, p. 46).

inviting investors. That in England was actually pushing them to get out. But this push must be observed alongside the mental background that prevailed there which is no less important. For when a given situation begets a line of thought, this thought in turn reacts to alter the situation by way of improvisation, and does so in varying degrees. The sum total of these original and altered situations begets the next line of thought. It was exactly such a process that took place just before English capital entered India. What helped England to take the leading place in commerce and industry after Waterloo was, more than anything else, a luxurious supply of capital, not infrequently superfluous. There was a tendency observed on many occasions for capital to flow abroad on the attraction of higher rates of interest than that allowed on the floating debt of England.¹ That was one of the arguments of Brougham for free trade before parliament in 1817.² It was clearly demonstrated in 1825. Twice during the three years immediately preceding that date the Government effected conversion operations, each time reducing the rate, and they found that the demands for loans by foreign governments and new adventurers in South America were very readily met by the English public. Side by side with this regional deviation in investment there also occurred changes in the distribution of capital among various categories of investment. Joint stock companies were the chief attractors on the repeal of the portion relating to them in the Bubble Act in 1825. But the disturbance caused during these transfer transactions was too violent for an ill-developed currency system; and thus the

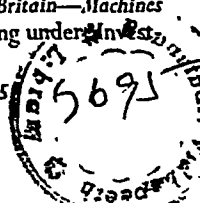
¹ See J. H. Clapham, *An Economic History of Modern Britain—Machines and National Rivalries* (1887–1914), 1938, passages coming under 'Investment' in the index.

² Ed. by V. P. Page, *Commerce and Industry* (1819), p. 35.

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his income he was said to have been driven to venture out into other fields of investment. Mill was more explicit when he wrote that one of "the counter-forces which check the downward tendency of profits in a country whose capital increases faster than that of its neighbours, and whose profits are therefore nearer to the minimum," was "the perpetual overflow of capital into colonies or foreign countries to seek higher profits than can be obtained at home." "I believe this to have been for many years one of the principal causes by which the decline of profits in England has been arrested."¹ Giffen argued on the same lines in 1878 and Levi repeated Fullarton almost verbatim.² We are not concerned here with the validity or otherwise of these theories, though it may be remarked in passing that they do not seem to have been anything more than good examples of that fallacy in logic, *post hoc ergo propter hoc*. They remained muddled and badly formulated till Marx analysed the same data incomparably more scientifically (though, as has been said, he might have come to fallacious conclusions), in relation to the rate of profit, in the final volume of *Capital*. But the thought involved in these theories did react on the material situation so as to alter it by way of accelerating foreign investments, the reaction being all the more intense since the thought came through the dilettanti. It pointed out to the capitalists that their speculative activity was a natural reaction to decreasing profits, and that if they did not invest their savings somehow, somewhere, the prospect of their remaining solvent was not promising. In short, it supplied their activity with a philosophical justification. Since the local avenues for investments were very limited, many of them depending for enlargement on the will of the

¹ *Principles of Political Economy*, Book iv, Ch. iv, §8.

² "The Victorians and Investment."

government, speculation in other fields became to them not a matter of choice but one of inevitability. They spurted their money into places which it could enter and where it could grow unhampered—India and the other undeveloped colonies.

It was the finance capital¹ that came to India under these circumstances that promoted and developed most of the major Indian industries, jute, tea, coal and the metallurgical. The results were good in the sense that India's natural resources were worked out. They could not have been bad; for they were (and they are) the results of an attempt by capitalism at self-preservation tried on a country with industrial potentialities undeveloped. This is clear from the historical situations analysed above which alone forced the development in India and not the entrepreneurial philanthropy of individuals. It was this capital that created the big bourgeoisie in Indian industry, and proceeded to the next stage in its own development, namely, the assimilation of local capital. The indigenous capital that joined this came from two sources. The first was the class of local small industrialists. The big bourgeoisie in India hitherto consisted of the landed aristocracy; the concentration of capital in few hands for purposes of industry was practically unknown. Industry, small scale, was hitherto in the hands of the independent small-propertied petty bourgeois elements which did not come into conflict with the landed big bourgeoisie, as they inevitably had to

¹ Hilferding originally coined this term to describe the integration of finance with industry *since about the last decade of the nineteenth century*. Mr. Maurice Dobb interprets the term as "an integration of finance with industry with its subordination of industrial decisions to large-scale financial strategy" (*Political Economy and Capitalism*, p. 245). I accept this, and I have used the term since this interpretation covers the situation described, though it might have occurred prior to the last decade of the nineteenth century.

with big capitalism, but got on alongside. Their small industrial capital, though it theoretically carried with it the seeds of big industrial capitalism, was not likely to give place to it; because only through absorbing markets, successful competition in them when that need arises, and the consequent accumulation of increasing profits can a small industrial economy become the big capitalism of to-day. The petty bourgeois Indian industry could not dream of a successful market abroad and within India it was being continuously repulsed by the products of the English industrial revolution. With the growth of imported big capitalism at its own doors even its few rural markets were severely curtailed and its position as a major constituent in the economic organization of society was destroyed. It began, and it is, heading towards complete extinction by the very logic of the growth of capitalism. The upper half of this industrial petty bourgeoisie, i.e., those who had some accumulated capital—the result of previous profits—but had not invested it further because of unsuccessful competition, joined the new big capitalists.¹

The other and more solid source of capital was the landed aristocracy. Theirs was the capital accumulated through the ownership of an agricultural economy the products of which met no competition and were completely consumed. They had not invested in indigenous industry for this same reason of its failure. On land they were already aristocrats. So they had taken to usurious money-lending, the high income from which they added to their capital. To this accumulation they sought investment in the new capitalism that was spreading itself within India.

¹ The constituents of the lower half became salaried employees or wage-workers under the new industrialism according to the degree of their dispossession.

2.

All the capital that came from outside did not of course go to industry. Other enterprises, particularly the railways, absorbed a good deal. But the investment in railways began earlier. When finance capital seeks an outlet in colonies it usually does so first in enterprises which consume capital goods without producing consumption goods, such as the railways and building industries, and only next in those which produce consumption goods. The extension of railways in India was being completed as the industries were spreading out. So even during the period when both went side by side the external capital which sought employment here must have flown more and more towards the industrial field and less and less towards railways.

It is not possible anyway to put down in exact figures the trend in which external capital entered the several enterprises year after year. There have been some estimates of the total foreign capital invested in India but all of them are conjectural, and necessarily so. The proportion of distribution of the total capital among enterprises of various sorts has been the subject of worse conjectures, and as to the actual course taken by this proportion during the past fifty or sixty years, none exist.

There is no doubt that an exact or even a fairly exact estimation of any of the above three is practically impossible with the material available at present. If the Government of India issued a questionnaire (making a reply obligatory and default punishable), asking all establishments working in India, in all classes and of all kinds, private as well as public, individual as well as joint stock, to give a statement of all their working capital held by Indians and foreigners in each concern, we would get

enough material to proceed with the estimation of the capital position in Indian industries. We will wait for such a prospect and in the meanwhile proceed by the inevitable method.

Conjectural estimates are not to be condemned as misleading simply because they are such. An estimate based on a high probability and reliable material is surely worth more than a haphazard one, and a conjectural estimate itself is better than none. This is no apologia for what is about to be offered here but a reminder of the fact that economic history is a social science. While exploring knowledge in the social sciences it is customary to insist upon what is known as the scientific method. But what is the scientific method? "If scientific method refers only to the nature and validity of the logical processes by means of which inferences are drawn from data, the methodologist is replaced by the logician. Methodological differences between social and physical science are ruled out by definition. Analyses of method in social science can only provide new illustrations of the handful of deductive and inductive types of reasoning which John Stuart Mill and others have expounded."¹ And social science stands to-day where it does not solely because of following this scientific method. Take for example the other extreme. Sumner, the great sociologist, "like Montesquieu or Darwin or a hundred others before him, simply collected a great mass of relevant material and made what he could of it." Besides "he used to laugh at methodology. . . . His methodology consisted in toil. . . . The case is one of utter simplicity. Hard work plus saving common sense with no talk about it."² Such are the varied procedures through which social science has grown. Such

¹ *Methods in Social Science*, Editor's Introduction, pp. 5-6.

² *Ibid.*, p. 4.

procedures, Professor Rice designates as 'techniques,' "reserving the term 'method' for the logical processes of inference from data. In this view techniques, or technical methods, are employed in fact-gathering, and in the manipulation or ordering of data prior to inference. That is, they are *aids* to observation or inference. Hence, they are almost infinitely varied, as the data to be dealt with are varied."¹ To the data available on the capital in Indian industries the particular technique I find applicable is a conjecture based on a high degree of probability and reliable material.

But it must be made clear that pleading a justification of the method is not necessarily claiming precision for the results of the method and validity for the conclusions drawn therefrom. Our probable knowledge of history is surely no substitute for history. History may be held to be either the abstract 'what actually happened apart from our awareness of the happenings,' or only 'the past that has survived in concrete record.' But what are these concrete records? They are approximations of what actually happened to our knowledge of the happenings, and their reliability or otherwise is only a matter of the degree of this approximation judged by an application of certain canons of evidence to them. When such is the case our *probable* knowledge is surely a half-way house. The moment it becomes a half-way house, the claims, if any, made on its behalf lapse with the onward march of history. So the conjecture here is offered as a ladder, only to be kicked away after use.

But it may be held that it is useless even as such: that half-way houses are no doubt necessary in history, but this particular conjecture does not serve such a purpose. But even then it proposes to remain. Because, on the very same

¹ *Methods in Social Science*, Editor's Introduction, p. 5.

ground that history is the approximation of what actually happened to our knowledge of the happenings, it can stand as an end by itself. If it is brought down it can only be in the degree of reliability.

So then we shall proceed to conjecture. Among the two classes of business activity, private individual and public corporate, no means exist to find out the amount and distribution of capital in the industrial establishments coming under the former class. In the latter, the only material on the basis of which we can calculate the proportion of foreign and Indian capital in Indian industries is the statistical information supplied by the Department of Commercial Intelligence about joint stock companies. Even this is by no means perfect or adequate—'this' referring to the returns about joint stock companies since 1921, in which year there was a reclassification. One of the main difficulties lies in isolating the industrial concerns from among others, and in the returns prior to 1921 this cannot be done to any degree helpful to our purpose. There, for example, the number and capital of industrial establishments under certain minor classes, such as engineering, leather tanning etc., are put under the head 'other companies' which comprises mostly trading concerns. Further, even among industrial concerns, many classes of them are amalgamated there. For example, we require the number and capital of cotton and jute screws and presses and iron ore mines separately, as we shall see later, but in the returns the first two are combined, and iron ore mining is put under the head 'other mines.'

In the returns after 1921 the industrial establishments are to be found under four heads, namely, Trading and Manufacturing, Mills and Presses, Mining and Quarrying, Tea and other Plantations. The following are the different classes of companies under each head:

Trading and Manufacturing

Chemicals and Allied Trades.

Iron, Steel and Ship-building.

Engineering.

Tanneries and Leather Trades.

Canvas and India Rubber Trades.

Gas, Water, Light, Power and Telephone (Public Service Companies).

Clay, Stone, Cement, Lime and other building and constructing materials.

Glass.

Tobacco (Cigars, etc.)

Soap, Candles, etc.

Brass and Copperware.

Aluminiumware.

Match.

Mills and Presses

Cotton mills.

Cotton ginning, pressing, etc.

Jute mills.

Jute presses, etc.

Mills for Wool, Silk, Hemp, etc.

Paper mills.

Rice mills.

Flour mills.

Saw and Timber mills.

Oil mills.

Other mills and presses.

Mining and Quarrying

Coal.

Gold.

Iron Ore.

Stone and Marble quarries.

Manganese.

Mica.

Petroleum.

Others.

Tea and other Plantations, and Sugar (including jaggery) manufacture.

Under the head 'Trading and Manufacturing,' as the title itself implies, there are some classes of companies which include many purely trading concerns.¹ Even among the manufacturing establishments a certain portion of the capital indicated in the returns is made use of for trading purposes. In this latter case it is not possible to isolate this portion. In the former case a little light can be found. At the end of the annual publication, *Joint-Stock Companies in British India*, etc., there is to be found a detailed list of all the joint stock companies under each class, with a column in which the 'objects' of each concern are given. A scrutiny of this goes to show that even under the classes devoted to trading, manufacturing and semi-manufacturing companies are in a majority over those devoted exclusively to trading. Thus in the year 1921, of the 117 companies under the class 'Chemicals and Allied Trades,' 70 were of the former kind; under 'Tanneries and Leather Trades,' of the total 52, 34 were of such a kind. The non-manufacturing concerns no doubt add to the amount of industrial capital, but on the whole they are inconsiderable and are not likely to influence the calculations to any significant degree. Besides, there is some margin for expansion of capital in the registered companies since under each of these classes there are many unregistered industrial concerns whose capital we do not know. But however, there is no basis to assume that

¹ One or two purely trading classes have been eliminated from the head. Further, of the total number of companies under this head there are as many unclassified ones as the classified, put as 'Others.' In 1935, for example, the number of companies put against 'Others' was 1,959, and the total of all against the other classes under the head 1,892. It is reasonable to assume that the former covers mostly the purely trading concerns.

under each such class the amount devoted to trading is equivalent to the amount of private industrial capital in that class.

The next consideration is the capital of companies incorporated elsewhere than in India but working in India. Here there exists another difficulty to be overcome. The amount specified in the returns against each class of companies of this sort is no indication of the capital actually invested by the companies in their establishments in India. Because, in the case of many companies their industrial activity in India is only a part of their total, and in some cases worldwide, industrial and commercial activity. The amount in the returns represents merely the total paid-up capital, subscribed almost wholly by non-Indians, in sterling, embracing the whole of such activity. This point will be clear if we consider one or two instances. In the year 1924-1925, the paid-up capital of 91 concerns registered and working in India in the class 'Chemicals and Allied Trades' was £1,403,000.* In the same year, in the same class, there were only 13 concerns incorporated abroad but working in India and their paid-up capital (excluding debentures) has been recorded to be £22,461,000. In the class 'Iron, Steel and Ship-building,' the corresponding figures are: 40 Indian firms with a paid-up capital of £3,435,000, and 16 foreign firms with a paid-up capital of £36,873,000. These figures mean that the foreign establishments, numbering only one-seventh and less than a half of the Indian, used nearly sixteen and eleven times the Indian capital respectively. It can be said without any hesitation that this is not true. Because, if it were true, i.e., if actually the foreign companies used all the capital shown against them in their establishments in India, we would be led to believe that the 16 foreign chemicals establishments in India were each many times

* Converted from rupees.

bigger than any of the 40 Indian. It is highly unlikely that the 13 establishments should have used $22\frac{1}{2}$ millions where 91 of them in the same class worked only with $1\frac{1}{2}$ million, because, in the actual conditions the size of the industrial units in each class is not found to vary so hugely. There might have been and no doubt are some foreign establishments in each industry bigger than the Indian ones,¹ but none, as is known, outstandingly and beyond comparison big as the returns imply.

The device adopted to overcome this ambiguity in the returns is based upon the assumption that there exists a representative average for the size of the industrial units in each class—this assumption, as was said, being justified by the actual conditions. By dividing the paid-up capital by the number of companies (registered and working in India) in each class, we get the average capitalization of a single establishment in that class. By multiplying this amount by the number of foreign establishments (registered elsewhere than in India but working in India) in that class, we get a fairly reliable figure of the foreign capital invested in that class in India.²

The next difficulty is the most important. The companies

¹ See P. S. Lokanathan, *Industrial Organization in India*, Ch. III.

² Capitalization with the paid-up capital only has been taken into consideration in both cases. The amounts of debentures, loans, deposits etc., actually made use of as working capital are unknown. It is true that the representative average of the size of units is not necessarily represented by the average paid-up capital of companies. As Dr. P. S. Lokanathan has pointed out, "the paid-up capital of industrial units, even when it is known for each case, is no measure of the size of the units. For the methods of financing the industries may vary much—some firms being content with small owned capital and willing to borrow a great deal" (op. cit., p. 88). But the difference between the paid-up capitals of foreign and Indian companies in the cases cited above is unbelievably huge even after allowing a wide margin for the extra-paid-up capital capitalization of the Indian firms.

registered and at work in India are not all capitalized by Indians, though floated with rupee capital. They are linked with foreign capital in three degrees. There are one or two classes which are wholly held by foreign capital, such as petroleum and gold mining. There are other classes in which a major proportion of capital is foreign, such as jute mills and coal mines. And lastly, there are many, probably all the remaining classes, in which foreign capital is mixed up in different degrees of minority. It can be seen now how difficult and dangerous it is to conjecture about the proportions of foreign and Indian capital in the face of this blur in every class. Nevertheless it is not without possibilities. We may divide the classes of companies into two categories, A and B, the former comprising those with predominantly Indian capital, and the latter those with predominantly foreign capital.

Category A

Chemicals.	Cotton ginning, etc.
Iron, Steel and Ship-building.	Jute mills.
Canvas and India Rubber.	Jute presses, etc.
Gas, Water, Light, etc.	Paper mills.
Clay, Stone, Cement, etc.	Rice mills.
Glass.	Flour mills.
Tobacco (Cigars, etc.)	Saw and Timber mills.
Soap, Candles, etc.	Oil mills.
Brass and Copperware.	Other mills and presses.
Aluminium ware.	Iron Ore mining.
Match.	Sugar mills.
Cotton mills.	

Category B

Coal mining.	Other mines and quarries.
Gold mining.	Tea and other plantations.
Stone and Marble quarries.	Engineering.
Manganese mining.	Tanneries and Leather.
Mica mining.	Mills for Wool, Silk, etc.
Petroleum mining.	

Some explanation is necessary regarding the division. Those classes in which foreign capital is generally agreed to be predominant have been put under B, and all the rest under A. So it is more true that foreign capital is predominant in B than that Indian capital is predominant in A. But still the inclusion of public service companies and the jute industry under A has to be explained. In the case of the former, the returns give the capital for all kinds of public service companies together and not individually. So the tramway, telephone and water-supply concerns which are not manufactures cannot be separated from the class. Among the public utilities water power development is mainly by Indian capital, but the tramway, telephone and gas services are known to be external enterprises. But in these services foreign capital is predominant where they are rendered by foreign companies (i.e., companies registered elsewhere than in India but working in India). Since this capital enters our calculation of the proportion of foreign capital in such a capacity separately, the class as a whole has been taken under A.

In the case of the latter, i.e., jute, it is even generally held that it is a predominantly external enterprise. But this was true only some thirty or forty years ago, and is probably true even now if all kinds of capital in the industry are taken into consideration. But we are dealing with figures since 1921 and only with the paid-up capital, and it was deposed before the Indian Fiscal Commission in 1922 that about 60 per cent of the shares in the jute mills are held by Indians.¹ Jute baling is financed by the Marwari community.² So the jute industry has also been put under A.

¹ The Marwari Association, Calcutta, in its written statement to the Indian Fiscal Commission, 1922, *Minutes of Evidence*, Vol. II, p. 427.

² See the evidence of Mr. R. L. B. Gall before the Indian Industrial Commission, 1918, *Minutes of Evidence*, Vol. II, p. 706.

There is a considerable amount of foreign capital in A and a considerable amount of Indian capital in B. It now remains to be decided what percentage of A is wholly Indian and what percentage of B wholly foreign. Among the classes in A, iron, steel and ship-building, canvas and India rubber trades, the public service companies, cotton mills, jute mills, paper mills and iron ore mines are the fields where foreign capital is employed in considerable quantities, and these classes contribute the bulk of the total capital of A. Some match companies are controlled by Swedish trusts. The remainder, which are worked almost wholly by Indian capital, though larger in number, are minor industrial enterprises contributing a minor portion of the total. To take an instance, in the year 1929, the total paid-up capital of all classes of companies in Category A was 1,142 million rupees, and the total capital of the eight classes stated above amounted to 893 millions. Taking even *one-quarter* as the proportion of foreign capital in the latter, that amount (223 millions) is 19.5 per cent of the total capital of A. So it can be safely taken that at least 20 per cent of A is foreign capital, and 80 per cent is the most liberal estimate of the proportion of Indian capital in A that can be conceived under the conditions.¹

Category B consists mostly of classes of industrial enterprises which were the earliest to be developed and with

¹ This 80 is of course the maximum that A could contain. As to the minimum it could be put at 55. In the above instance, of the total capital of the eight classes stated, an absolute minimum of 50 per cent is Indian, considering the Tatas' enterprises in the iron industry and water power development, and the textile and jute industries. This amounts to 447 million rupees. The capital of the remaining classes in A is 249 millions (1,142 minus 893). In this there may be about 10 per cent of foreign capital in the cement, chemical and sugar industries. Deducting this out of 249 the minimum Indian capital in A amounts to 671 millions (447 plus 224), which is 58.7 per cent of the total capital of A.

foreign capital. The mines and the plantations are *the* fields of foreign capital in India. Though there is very little place for Indian capital in the mining enterprises as a whole, there are considerable quantities of it in the coal industry. In all the other classes there are good amounts of Indian capital. In the year 1929, the total capital of the four non-mining classes and coal amounted to 320 million rupees. A liberal estimate of the percentage of Indian capital that this could contain is 40, which amounts to 128 millions. This is 25.5 per cent of the total capital of B. So 25 per cent of the total capital of B is taken as Indian.

The percentages of the proportion of Indian capital in A and B are both estimated liberally to show that in spite of it the proportion of foreign capital in the total is bulky.

Now, by adding the 80 per cent of A to the 25 per cent of B we get the total amount of Indian capital; and by adding up the 75 per cent of B, the 20 of A, and the total paid-up capital of foreign companies (incorporated elsewhere than in India but working in India), worked out on the average capitalization basis stated before, we get the total amount of foreign capital in the joint stock industrial enterprise in India. (See Appendix D.)

The table on the next page is the result of these deliberations.

Keeping in mind the drawbacks with which the material was hedged, it is difficult to draw any major generalization from the above figures. But a few conclusions do follow from them.

As the table would indicate, though Indian enterprise is known to be growing gradually, it has not been able to steal a march on the foreign in the rate of expansion. On the other hand, it seems to be keeping pace with it with difficulty. But certain other considerations can be brought in

the way of such a conclusion. The exclusion of private un-registered capital and extra-paid-up capital from both categories, Indian and Foreign, puts them *technically* on the same level for purposes of drawing conclusions. But individual private enterprise as well as the usage of extra-paid-up

Year (ending March 31st)	Total Capital: Indian (In millions of rupees)	Total Capital: Foreign (In millions of rupees)	Percentage: Indian	Percentage: Foreign
1921	633	485	56.6	43.4
1922	822	682	54.6	45.4
1923	998	811	55.2	44.8
1924	1,039	829	55.6	44.4
1925	1,050	847	55.3	44.7
1926	1,020	850	54.5	45.5
1927	1,041	856	54.9	45.1
1928	1,036	913	53.2	46.8
1929	1,040	907	53.4	46.6
1930	1,040	913	53.3	46.7
1931	1,018	912	52.7	47.3
1932	1,030	913	53.0	47.0
1933	1,055	910	53.6	46.4
1934	1,096	954	53.5	46.5
1935	1,113	930	54.5	45.5

capital exist to a larger extent in the case of Indian enterprise than foreign. The Indian industrialist is both more distrustful and ambitious, and the industries worked by Indian capital depend more on borrowing.¹ So it may be held that with the growth of Indian enterprise these two factors have, taken on the whole, really accelerated the rate of

¹ For the latter point refer *Industrial Organization in India*, pp. 152, 155 and 162.

expansion as the table has failed to indicate. There is no doubt scope for such a development, but it could have influenced the rate of growth only slightly. Because, firstly, individual enterprise in industries under A is confined to the numerous small ones such as glass, soap, rice mills, etc. The capital requirements of establishments in these industries are too small to jeopardize the proportion of foreign capital, invested mostly in the basic and major industries. The case of cotton mills is an exception in A, where private ownership is common. But the starting of private cotton mills was mostly before 1921 and after that date for one or two years during the post-war boom. The bankruptcy of many mills that followed greatly retarded individual venture in the industry.

Secondly, while the Indian industrialist does depend more on borrowing for the needs of working capital, it is also true that European firms and managing agents have a better command of bank credit. Their influence in the directorate of the provincial banks is stronger. When they float debentures they are more readily subscribed by the public. If Indian companies are to be successful in raising loan capital for their industries, they should be long- and well-established.¹ The success of European industrialists in this branch of industrial finance is mainly due to the fact that they work industries of such a character. Among the industries under A, a large number are of recent origin and neither long- nor well-established. It is only in the well-established cotton mill industry in Bombay and Ahmedabad that there is considerable loan capitalization in the Indian section.

These explanations are with regard to progress of the industries with all their sources of capital reckoned as a

¹ *Industrial Organization in India*, the latter sections of Chapter IV.

whole. But even apart from them, the table as it is indicates that the difference in the proportion of *paid-up* capital in 1935 over that of 1921, though small, has been in favour of the foreign. While the amount of foreign paid-up capital increased by about 92 per cent, the amount of the Indian increased only by about 76 per cent. Besides, it must be remembered that the percentage proportions assumed by us are in relation to the conditions prevailing at the present day. And these present conditions have *grown* to be what they are. Indian enterprise followed, and during the process of growth only supplemented, the foreign and did not supplant it. So in 1921 the percentage of Indian capital in A must have been less than 80, though maybe slightly. But by taking 80 as the figure running throughout we have handicapped the proportion of foreign capital by depriving it of a certain progressive proportion. So firstly, the investment of foreign paid-up capital has been faster than the investment of the Indian, and secondly, this faster rate is actually a little faster still. It is difficult to put down any particular reason for the former. If it is held that it was because the industries in which the foreign capitalists float companies and invest capital are the ones that yield larger and steadier profits, it may be asked what prevented the Indian capitalists from going to the same industries for company flotation and investment when it was known that they flourished better. The only reason that could be given is the hold which foreign capital has acquired on the set of industries in category B. The management there being largely foreign they come to know much earlier than the public the time when new companies in those industries can be profitably floated. Similarly when the share capital is to be increased in the existing companies, they take advantage of their prior knowledge, in the first case to float companies

and subscribe a good proportion of the share capital, and in the second case to buy up the shares themselves, this quick action being facilitated by the decidedly superior position in which they are placed as regards capital supply.

The future trend in the distribution of capital in Indian joint stock enterprise may not undergo any violent change. The amount of foreign capital is not likely to diminish either absolutely or relatively. Since the industries under category B are basic and major ones they have a better chance of industrial survival in an imperial economy than those in A. They are more stable and consequently the capital sunk in them will continue to be a bulky proportion of the total capital. Those in A, with the little expansion that is open to them under the circumstances, may contribute enough capital to maintain the Indian proportion but they are not likely to increase it. On the other hand foreign capital may invade even these industries more and more.

3.

Though the bulk investment of capital in Indian industries occurred about the eighteen-eighties, the industries did not enter the field of big capitalism till the nineteen-hundreds. So the latter is in India always, comparatively, an infant capitalism. But it threatens to be a perpetual infant even absolutely, depending for its existence more and more on capitalist spoon-feeding.

Industrial capitalism depends for successful competition both in national and international markets upon constant changes both in its general form and internal organization. This is its attempt at preservation against capitalism itself. It rapidly gains its age through this process. The essential *absolute infancy* of industrial capitalism in India is

best reflected in the complete absence of this tendency. It was ushered into a world the markets of which—particularly the home of its own birth—had been partitioned by adult capitalisms. This was like a stroke of paralysis at the birth itself. It merely *existed*, partly because, being the offshoot of a precipitated capitalism it was being forced to, and mostly by seeking markets uncompeted for, thus postponing competition. This was purely a defensive and not an offensive method of existence. The industries expanded but capitalism did not grow.

Herein lies the clue to the backward industrialization of India, namely, the inherent contradiction of industrial capitalism in a fully dependent imperial territory. Progressively in its protectionist, monopoly and imperialist stages the state is an indispensable ally of capitalism. But in an imperial territory like India capitalism is cut off from the state, for the very reason that the state there is a branch of the empire. As this imperial branch represents an agency to feed home capitalism with raw materials and keep the markets for its products, it cannot by its very nature ally itself with the growth of capitalism within the imperial territory, i.e., protect, finance and seek markets for it. On the other hand its historical nature forces it to prevent industrialization, to perform the functions for which capitalism has created it. Thus industrialization within an imperial territory becomes a struggle between two mutually contradictory forces.

Indian industries could not evade competition for long. There was no doubt a vast vacant market for them. But as western capitalism went on precipitating, because of the greater power of competition they possessed, being older, they invaded these markets (both in India and outside) and came into conflict with the products of Indian industry.

The infant had to make way for the adult and sneak about for his existence. Beaten in competition, the natural historical growth of industrial capitalism in India was stifled. Under those circumstances to make it an adult was required an abundant state finance and a national government to ensure it at least the full national market. Both were absent. So as the older capitalisms were rapidly changing their organizational structure and becoming more and more powerful Indian industrialism was left to stand still without the natural historical push, and the Indian capitalists in their economic function were interested neither in making industrial capitalism adult nor in changing its forms but only in their class survival. So the power of the industrial organization to grow adult by itself was gradually on the decline. While at best it has grown to a juvenile since the past thirty years, world capitalism has grown to a giant in its organizational form.

The economic consequences of this are very serious. If monopoly capitalism with its changing forms deliberately sabotages a country's productive capacity, juvenile capitalism never invokes it. That is exactly what has happened in India. The capitalists being the tools of the historical development of capitalism, i.e., caught within the orbit of economic imperialism, have failed completely to work out the full productive capacity of India. Since their incapacity to industrialize is progressive, i.e., since the forces of their movement towards capitalist combines grow less and less powerful, industrialization becomes inseparable from a radical change in the organizational form itself. Even if the imperial state, neglecting its historical character, were to aid the growth of the present juvenile capitalism to the monopoly stage, it is highly unlikely that it could overtake the others in any worthwhile period of time. By the time it is first

cured of its paralysis, then made an adult and then a giant, the others which are already in the imperialist phase—super giants—will have probably burst. Hence it would necessarily remain infant relatively, and would be placed at a disadvantage in competition amidst established powerful rivals. So the change will have to be unavoidably towards socialism.

Such is then the background of history to which Indian industries owe their present state. Little meaning is contained in the phrases 'capital is shy,' 'enterprise is lacking' etc., which are usually employed to explain the backward industrialization of India. It has been the expression of a contradiction which is discernible in its growth; and the industrialization must remain backward as long as the contradiction exists.

We saw in the first part of this chapter how industrial capitalism in India is not the product of normal local evolution, but rather thrust in from outside. An attempt has been made in the following pages to elucidate this through selected aspects of two of the oldest industries, coal mining and jute. Their study does not form any detailed and independent survey, but is only an illustrative appendage to the foregoing essay.

THE COAL MINING INDUSTRY

The evidence of history about certain working methods employed in the coal mining industry, and the trend in coal output together endorse a nature of exploitation that is characteristic of colonial industrial enterprises born out of a precipitated capitalism. Hounded out of the mother country with no place for profitable investment, the finance capital that exploited the coal industry in India was hectic

in its pursuit of profit. The expectation of profit by this capital which was unprofitable at home was not normal as in the case of enterprises in original capitalistic development. It was abnormal. The Coalfields Committee in its report had occasion to observe: "It must be remembered that shareholders (in the industry in India) expect a higher rate of interest than in England and that unless a mining proposition can be floated with a reasonable prospect of a return of about 10 per cent, it is doubtful if capital will be forthcoming. . . . In order to maintain dividends companies have often sacrificed the reserve funds on which depends the future development of their mines."¹ Since there was a large growing internal demand for coal from the railways which could be met at a lower price than that of imported coal, and consequently practically no external competition and price-cutting (except after about 1924), the industry set out to cater for this expectation of abnormal profits through over-rapid increase in output.

The foreign managing agents intending to work the coal obtained leases not from the Government but from the zemindars under the permanent settlement who owned (and even now own) the rights of the Raniganj and Jharia fields. The state did not attempt to establish its rights to the mineral resources in these areas, since such a course was thought inexpedient. The Secretary of State for India in a despatch of March 25, 1880, wrote to the Government of India: "I agree with you that the indirect advantages resulting from making available the mineral resources of India are likely to be more valuable to the state than any direct returns; and I therefore consider that it would not be desirable to enforce the right of the state, supposing that such a right can be established in the permanently settled

¹ *Report of the Coalfields Committee, 1920, p. 4.*

estates."¹ So the zemindars were left to deal with the entrepreneurs as they pleased. The absolute lack of interest which these landed gentry showed in the mineral assets of their estates favoured the entrepreneurs. The zemindars gave leases for periods up to 99 years (long lease) or up to 999 years (perpetual lease), on receipt of a lump sum payment known as *salami*, and at the present day they receive a comparatively small sum as rent or royalty.² About 60 per cent of the coal areas are covered by leases of this description.³ The zemindars "were unable to resist the lure of large sums of ready money. Valuable properties and rights were parted with for comparatively small considerations, and the future was left to look after itself, little or no provision being made for the proper working of the properties or the proper exercise of the leased rights."⁴ The leases in certain cases did stipulate conditions for proper working of the mines. But in practice they were ignored and the landlords acquiesced in such conduct by the entrepreneurs. The Coalfields Committee wrote: "In practice however, we find that these provisions are inoperative. No landlord employs a competent agent to inspect his tenants' mines and to safeguard his interests, any supervision exercised being confined to the prevention of fraudulent evasion of royalty."⁵ Far from arranging for the supervision of the working, the zemindars were not alive to the interests of their property even at the very outset when they leased out their estates. Mr. Treharne Rees, who reported to the Government of India on the methods of coal mining in India (to consider which report the Coalfields Committee was appointed) observed: "It has further come to my notice that in the case

¹ Quoted, *Report of the Coalfields Committee*. p. 6.

² See the *Report of the Coal Mining Committee*, 1937, Vol. I, Supplementary Note by Dr. M. S. Krishnan and Mr. H. K. Nag, p. 216.

³ *Ibid.*

⁴ *Ibid.*, main report, p. 69.

⁵ *Report*, p. 4.

of large tracts of coal property, the areas let off for working by the landlords have not been so arranged as to conduce to the economical working of the estate as a whole, but rather with the object of receiving as much as possible by way of 'salamis' . . .¹

So the circumstances in which the foreign capitalists found themselves in India were very conducive to promote their ends. It was exactly this autocracy in exploitation that they wanted. The Government abetted, and even to the present day is abetting, their free hand in the mining of coal. Regulations were not imposed to insure a conservation of this national asset for the future.

The exploitation of the mineral was begun with the eye on output. Mr. Rees in his report came to the conclusion that "in a large number of properties the colliery has been worked chiefly with the object of producing outputs at the earliest possible moment, without due consideration being given to the most efficient methods of laying out the collieries for the more distant future."² While these quick and large outputs were caused, directly, through wasteful

¹ *Report*, Appendix A, p. 38.

² *Ibid.* A number of extracts from the evidence recorded before the Coalfields Committee may be given in support of this and the following observations on working and remuneration methods, but are redundant in view of the committee itself endorsing their bad nature. Of course evidence to say that the working methods were satisfactory also exists, and it may be said that the committee's verdict is prejudiced; but the committee was one of experts, and not at all suspected of anti-capitalistic tendencies. And when such a body of people find fault with the system I think it must be true.

[Interrogatories to Landlords' Representatives: Question 7: Do you know personally of any instance in your estate or elsewhere in which coal has been won with a view to speedy profit, with the result that damage has thereby been done to other unworked coal and loss caused to the landlords' future interests.

For replies in the affirmative to this question from the representatives of various landlords, see *Report*, pp. 139, 145, 147, 148].

working methods, indirectly they were encouraged by the system of remuneration to the managing agents. Mr. Rees wrote: ". . . the practice in vogue seems to be to pay the management at the collieries a bonus or commission on the quantity of coal raised, which naturally tends towards the chief attention being given to immediate outputs rather than to a steady output over the natural life of the property."¹ Even where the other two methods of remuneration (commission on sales and commission on profits) were adopted the effect on the coal asset was not different. For as the Coal Mining Committee pointed out: "All the three methods (of remuneration) place a premium on high outputs, big sales and large profits, and are generally calculated to focus effort on immediate rather than future gains. . . ."² One or two witnesses deposed before the committee that the managers of the mines were forced to adopt unsound and unsafe working methods by the managing agents in the interest of profit or, if they refused to do so, lose their jobs.³ The managing agents have of course to be remunerated in some method or other if they are to work the mines. They cannot possibly work them with altruistic motives. It is their profession to make profit. But the mistake was that the methods of remuneration which were suited to manufacturing industries were applied to an extractive industry the product of which had an almost continuously full demand, and consequently the demand factor did not act as a corrective to working methods.

In the actual working of the mines the pursuit of large immediate outputs was made evident by the pillars that were left behind, reduced in size to a dangerous point.⁴ "It

¹ *Report* pp. 139, 145, 147, 148.

² *Ibid.*, Vol. I, p. 28.

³ *Ibid.*

⁴ For a technical description of the working methods see *Report of the Coal Mining Committee*, Vol. I, pp. 11-17.

should be remembered," wrote the Coalfields Committee, "that, in the early days of the industry, the systematic extraction of pillars was never contemplated. Pillars were regarded not as a reserve for subsequent recovery but as a means of support while as much coal as possible was being recovered in the first working; the pillars were then thinned to the verge of collapse, and the mine was abandoned. Even in more recent times when the getting of pillars is looked on as the final essential stage in working, the desire for large outputs during the first working has in some instances, led to the reduction of pillars below the limit of safety."¹ The 'bord and pillar' method of extraction (as opposed to the Panel system and sand-stowing), which is responsible for this reduction of pillars in the second or third stages of working, and the consequent abandonment of mines with the ultimate loss of a considerable quantity of coal,² was employed in spite of all these consequences that it carried with it, as it "gives a quick return, and also means a cheap cost per ton for a colliery during the earlier part of its life."³

Thus there is ample historical evidence to prove the particular nature of coal exploitation in India, namely, the pursuit of abnormal profit by external finance capital. The accompanying graph is a statistical complementary to this evidence; it is intended to bear out statistically the same nature of exploitation as do the findings of the several

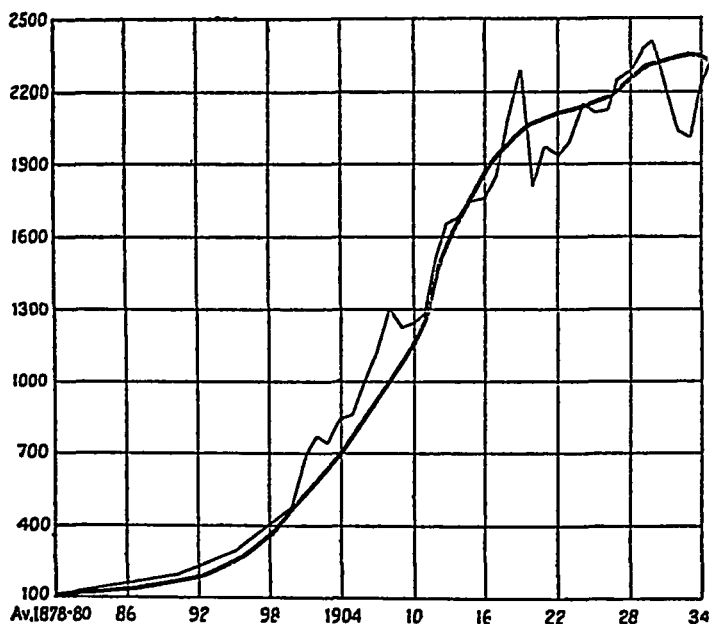
¹ *Report*, p. 3.

² "The quantity of good quality coal now standing in pillars in these two fields (Jharia and Raniganj) exceeds 295 million tons, . . . and losses such as have already occurred are certain to recur during the future extraction of these pillars by present methods."—*Coal Mining Committee Report*, Vol. I, p. 13.

³ Mr. Starks Field in his written evidence to the Indian Industrial Commission, 1918, *Minutes of Evidence*, Vol. II, p. 126.

investigations into the working of the industry. The graph records coal production in India since 1880 and indicates the trend in it. Though mining on a large scale began as early as 1854 the industry established itself only when most of the fields were opened up about 1880. According to the

The Trend In the Production of Coal. 100 = 987,000 tons.



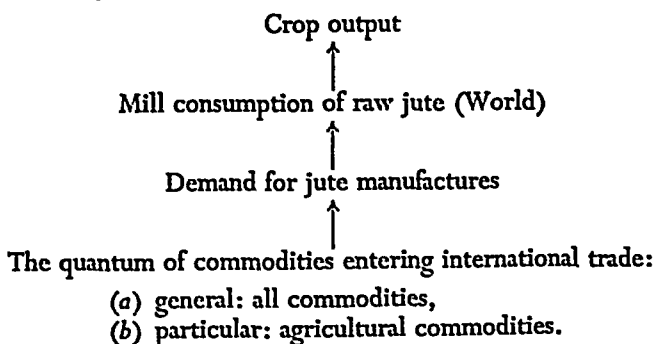
curve, during the first thirty years from 1880 the output increased at an increasing rate and during the next twenty years at a decreasing rate, which was more marked after 1915. Minerals are no doubt wasting assets, but in this case the decreasing rate began earlier than it could possibly have done if the exploitation was normal; it need not have begun so early. Thirty years is rather too short a period of time in the normal life of a coal asset for a decreasing rate of

increase to begin at the end of it. Such a trend occurred since the industrialism that exploited the coal asset was not original but imposed from outside.

THE JUTE INDUSTRY

Some preliminary facts about the nature of the jute industry are necessary as this industry concerns, unlike most other major industries, a natural monopoly. Raw jute is India's monopoly in the world market. "Strenuous efforts have been made in Java and in parts of Africa and America to produce jute on a commercial basis but so far (1933) they have failed."¹ Even in India it can be grown only on a small area of about 3·5 million acres in the provinces of Bengal, Bihar, Orissa and Assam, and nowhere else.

All industrial crops are affected by the changes in the demand for goods for which they are the raw materials. But the particular use to which jute products are put and the possibilities of its cultivation on only one patch of soil on the globe expose jute cultivation to greater hardships. The position of the industry and crop in production may be *roughly* expressed as follows:



¹ Royal Institute of International Affairs, *World Agriculture—An International Survey*, p. 222.

Jute goods are said to be the 'brown paper of international commerce.' The demand for them depends upon the quantity of goods exchanged internationally that has to be packed. The extent of this demand regulates the quantity of jute goods produced or the quantity of raw jute consumed, which in turn regulates the output of the crop. But the working of the industry and cultivation is of course not so smooth and automatic as this, nor so regular year after year. That is the adjustment over a series of years. Further, this refers only to normal times. During war, for example, particularly modern wars, the demand for sandbags may give an abnormal fillip to the industry, even to the extent of eclipsing international trade as the regulating factor. But as it is in peace time, when the quantum of international trade shrinks, the mills perceive the effect quickly and restrict output, which means laying aside the extra bales of raw jute with the stock. The cultivator finds that he cannot market his crop at the 'prosperity' price. He feels this lessened demand for raw jute more acutely than the mills do for manufactures. Because the effect of the decreased demand for manufactures, namely, the decrease in mill output, will be distributed between several countries, whereas the effect of the decreased demand for raw jute falls only on the Indian cultivator, unlike the case of other agricultural commodities (cotton for example), where the effects of a reduced demand are distributed over several countries. The price of raw jute falls and there is no question of the ryot waiting till it improves, because he lives by cultivation. But this selling at a lower price does not induce him to restrict his acreage or abandon its cultivation till prices rise. It is only when the price of jute falls to that point at which the cultivation of rice on the same area brings him a greater income that he changes the crop.

And this situation does not quickly result since there is considerable disparity between the market value of the produce per single acre of rice and jute. (The average between 1904 and 1913 was Rs. 54.62 and Rs. 128.79 respectively).¹ The result is, while for a term of years the price level hovers low, it does not go down sufficiently to induce abandonment of cultivation. The consequence is continued 'over-production' of the crop, and over a term of years its absorption at prices unremunerative to the cultivator.²

So the jute crop, though by the nature of its supply it can be an economic monopoly with effective control over the price of the product by the producers, is not only not so but is even put in a position very nearly the opposite because of its cultivation by individual cultivators on small plots of land, and the absence of producers' organizations.

Such is the condition in the production of the raw material which the industry exploits. Now coming to the industry itself the annexed graphs depict the comparative history of the jute industry in India and Great Britain since the beginning of this century. Though the period under consideration is the same for both, there is this difference: By the time the industry took birth in India it had been well-established in Great Britain. So in the case of India the graph depicts the production of the industry in an earlier stage of growth than in the case of Great Britain. So it must be presumed that so far as the organizational structure was concerned the British industry was superior to the Indian during the period.³ And in spite of this it is observed that

¹ See *Report of the Bengal Jute Enquiry Committee*, 1934, Vol. I, p. 70.

² *Ibid.*, p. 96. Cf. *World Agriculture—An International Survey*, Appendix I, p. 260, Sir Josiah Stamp's note; and E. W. Zimmermann, *World Resources and Industries* (1933), p. 169.

³ Outside India jute goods are manufactured in the continental countries and the U.S.A. in addition to Scotland. In all these centres the

the industry in India has been progressing whereas in Great Britain it is declining, though in both cases not with unbroken continuity. The following table supplements the graphs.

Before this relative prosperity of the industry in India is interpreted as a case of exploitation by finance capitalism

MILL CONSUMPTION OF RAW JUTE
(Quinquennial Averages)

Period	India		Great Britain	
	1,000 tons	Index	1,000 tons	Index
1895-1899	358	100	237	100
1900-1904	501	140	206	87
1905-1909	734	205	227	96
1910-1914	680	190	204	86
1915-1919	877	245	188	79
1920-1924	809	226	140	59
1925-1929	931	260	186	78
1930-1934	813	227	145	61

some observations on the usual explanation, which is based on the general theory of localization, are necessary. It must be understood at the outset that a theory of localization does not at all exist in the strict scientific sense with formulated cause and effect. After an elaborate and thorough enquiry into the problem Bertil Ohlin has come to the conclusion: "It is evident that within limits a country may manufacture is carried on by a grown up and superior industrialism. The industry in Great Britain is chosen for purposes of comparison as being typical of this group, and further, it is British capital that pioneered the industry in India.

specialize in any one industry as well as in any other. Chance plays a significant part in determining the localization of industry."¹ It is a theory of all causes and all effects. It is not held exclusively that equipment of productive factors determines a particular production and trade in a region, nor that trade governs the supply of productive factors, but that both interact. Similarly in the many details such as the 'transport distance,' conceived in relation to cost, and the mere geographic distance, in the movement of raw materials and finished products. Even the few commonplace canons that have survived this inexactitude are not applicable to the industry in point since it comes under textile industries. The textile industry is to be found in such economically opposite countries as China and the United States, or India and Great Britain, so that absolute generalizations as regards its location cannot be made. However, the jute industry differs from the other textile industries since the raw material concerned is a natural monopoly. This is perhaps the only localization factor which may seem to explain the trend of production in the industry in India.² It means this, that the relative prosperity of the industry in India is attributable to its situation in the raw material area. In every other centre of manufacture the industry has to import raw jute. So the advantage to the industry in India reduces itself to the savings in transport costs. This is no doubt a substantial advantage. While the other centres pay considerable ocean freight to get the commodity, what the Indian manufacturer pays by way of transportation charges is practically negligible. Because Calcutta is the market for raw jute transactions, and more than 95 per cent of the jute mills are

¹ *Interregional and International Trade* (1935), p. 137.

² Ohlin attributes the relative prosperity of the industry in India to labour conditions (*Ibid.*, pp. 520-521).

situated within a distance of about 60 miles from Calcutta. Now the point is whether this substantial advantage accounts for the relative condition in the production trends of the industry in India and Great Britain. The industry in Great Britain is getting on, though maybe declining relatively, and competing with the exports of Indian manufactures in the international market. If the advantage referred to were the deciding factor the decrease in the British industry's production and the increase in that of the Indian should have been more proportionate. During the period under consideration the average decrease in the British production was only by 22 per cent, whereas the average increase in the Indian was by 113 per cent. If a single localization factor, namely, that of proximity to the raw material, were the explanation for the 113 per cent increase in Indian production, then the British industry should have relatively declined more than it has done. In other words, the relative prosperity in India was too huge to be accounted for by that single factor. It might have operated to cause a small relative prosperity but it is highly unlikely that it should have caused the whole of it.

This disproportionate prosperity of the jute industry in India is a result of the circumstances of economic development. The drive for super-profits was effected, as in the case of coal mining, by a manipulation of the working methods. The first was the acquisition of control over the price of the raw material. The Indian Jute Mills' Association has been pretending for a long time that jute is only a conditional monopoly, the condition being the price.¹ It is true that substitutes can be produced, but the contention that they can be produced on a scale and at a cost at which jute may

¹ Written statement to the Indian Fiscal Commission, *Minutes of Evidence*, Vol. II, p. 484.

be ousted from its present position goes against all technical opinion. Even as it is at present it would probably be true that raw jute is a conditional monopoly if its price depended in any way upon the producers. This might occur either through its meeting competition from other sources or through valorization. Being a natural monopoly its price is not governed by competition in the real effective way. The only competition is between several groups of cultivators which can keep the fluctuations in price only between very narrow limits. For the prices to be controlled from the supply side there do not exist producers' organizations, as was pointed out at the beginning of this study. So the only other way in which its price could be shaped (ignoring such factors as harvests), is through the vagaries of demand.¹ In theory however, it was the demand of the industry as a whole, inside and outside India, that controlled the price of raw jute. But in practice only the industry in India counted in the process. Because the quantity of exports has depended not so much upon the needs of the foreign mills as upon those of the Indian. If the export dealers were bidding the price higher and higher to acquire a greater quantity than the Indian mills would naturally allow, then the latter would have no advantage by way of control over the price of the raw material. But it is not so. Because of the proximity of the industry in India to the raw material market its needs are known absolutely and relatively. Dealers know the stocks in Calcutta mills even but not the consumption needs of the foreign mills. So they do not usually risk such a speculative purchase. Hence it is more the foreign mills getting raw jute at the price prevailing in Calcutta than regulating that price. Thus it is that the price of raw jute

¹ See D. H. Buchanan, *The Development of Capitalistic Enterprise in India* (1934), p. 238, for statistics of raw jute prices since 1895.

is governed by the demand of the industry in India. Even then unchecked output as between unit and unit would transfer governance of the price from the whole industry in India to some larger and more efficient units outside. But it has not been so because the managing agents have been successful, when need arose, in effecting a restriction of mill output in relation to the demand for jute manufactures. Thus having acquired this fundamental advantage of making pawns of the cultivators for the purpose of the industry's needs, it was able to over-expand and pursue abnormal profits.

This pursuit is reflected in the way in which the methods of remuneration to the managing agents were worked. In most cases it is by a payment on the production and sales and in some upon profits. In actual working however this distinction means little. Because profits depend upon the successful working of the units which in turn depends upon a marketable output by them. So whenever agreements have been reached to restrict mill output the course has looked very altruistic; but it is only to keep up the level of profits. "It is doubtful if any other group of factories in the world paid such handsome profits between 1915 and 1929. . . . In so far as they resulted from deliberate limitation of the supply of jute manufactures through short time, these earnings are more open to question. Indian mills have in cheap labour and proximity to the source of raw material such advantages that they can quote prices well below what most of their competitors are able to meet; and a goodly share of their profits are due to their success in frightening away would-be competitors."¹

Thus, abnormal profits with a drive to expand the industry to the maximum capacity within a minimum period

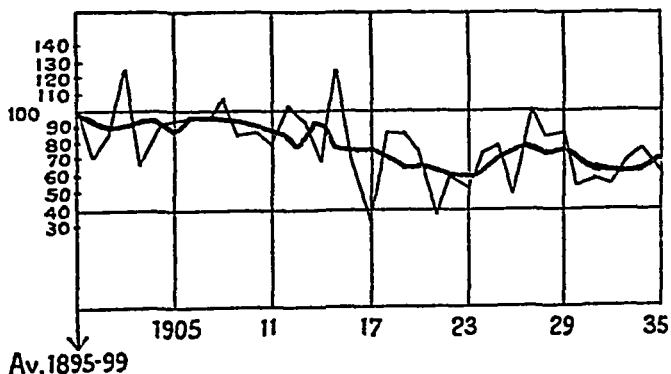
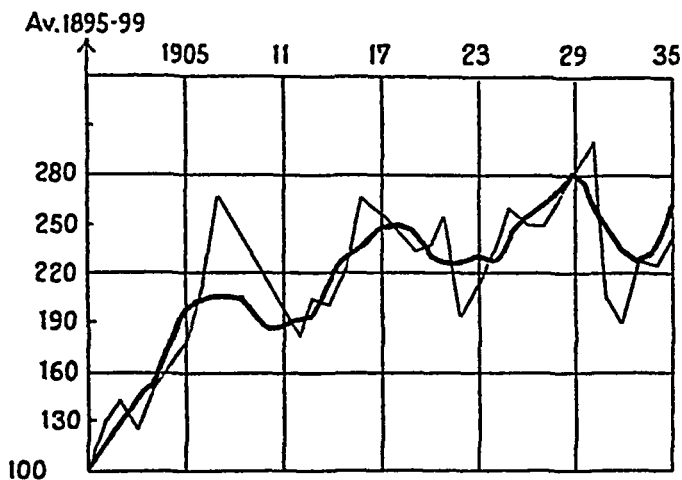
¹ Ibid., p. 253. See also *Industrial Organization in India*, p. 117 and pp. 291-295, for statistics of the rate of profits.

The Trend of Production in the Jute Industry.

(Mill consumption of raw jute)

Top. India: 100 = 358,000 tons.

Bottom. Great Britain: 100 = 237,000 tons.



of time has been the history of the jute industry in India. And such a history is a result of the circumstances of economic development, namely, that it was not an original industrialism that pioneered the industry in India but external finance capital.

APPENDIX A

A NOTE ON INDIA'S INDUSTRIAL POTENTIALITIES IN RELATION TO HER MINERAL RESOURCES

India is not so rich in minerals as she is usually boosted to be. A general impression has been created by which India's 'enormous mineral wealth' is assumed and 'the lack of enterprise to exploit them' is pitied. This is a misleading assumption to which Sir Thomas Holland put a timely check in his presidential address to the British Association in 1929. Any appraisal of a country's industrial potentialities must ultimately depend upon its resources in what are called the 'great essentials,' particularly coal and iron ore among them, they being the basis of industrial civilization. No exact estimate of India's reserves in these two minerals exists. But there are many approximate ones which are fairly near to one another. Some of them are here cited. These are tabled below for the sake of convenience in reference. The table excludes those estimates which overlap and those that are unreliable. With regard to coal, the first and second nearly agree with each other, as also the third and fourth. But there is a huge difference between the first two and the last two. In source 4 it is stated that its estimate refers to "India's reserves of workable coal of all grades to a depth of 1,000 feet." The estimate of source 3 also probably refers to 'workable' coal though that is not stated there. But what is important to us is not so much the actual quantity of India's reserves as their percentage to the total world reserves. According to source 2, the world total is 7,398,000 mill. metric tons, which figure is near to the estimate of world reserves given in *The Transactions of the Fuel Conference*, 1928, Vol. I, p. 783,—6,901,000 mill. metric tons. So the percentage in the case of the first two stands at about 1·1. According to source 3 the total world reserves come to 1,640,000 mill. metric tons. And the percentage of the second two estimates of India's reserves to this stands at about 1·3. So it can be taken that India's share in the world reserves of coal is between 1·0 and 1·5 per cent.

With regard to iron ore, only one estimate is cited because there is practical agreement on the quantity of the reserves of first grade ore (i.e. with 60 per cent or more iron content) being in the neighbourhood of 3,000 mill. tons. According to source 3, the iron content of the total world reserves of ore is 7,300 mill. tons. This figure does not include the figure for India, since India

COAL

Source	Estimated Quantity
1. International Geological Congress, 1923. (Quoted by the Indian Mining Federation in their memorandum, <i>Report of the Indian Tariff Board: Coal Industry</i> , 1926, (Evidence), p. 32)	70,000 mill. metric tons
2. Federation of British Industries, <i>The Resources of the Empire—Fuel</i> (1924), p. 36	79,000 mill. metric tons
3. Frank H. Simonds and Brooks Emery, <i>The Great Powers in World Politics</i> (1935), map on pp. 46-47	22,500 mill. metric tons
4. <i>Report of the Coal Mining Committee</i> , 1937, Vol. I (estimate of Mr. C. S. Fox), p. 203	20,000 mill. tons (or 20,320 mill. metric tons)

IRON ORE

1. Source 4 above, Appendix (after the estimate of Mr. C. S. Fox in 1925).	
i. 60 per cent iron content	3,341 mill. tons
ii. 45·6 per cent iron content	3,000 mill. tons
iii. Less than 45·6 per cent iron content ..	1,500 mill. tons
	<hr/>
	7,841 mill. tons
Total iron content of i and ii only	3,384 mill. tons

is thrown there, quite ignorantly, under 'areas with minor reserves.' We have to add India's figure to it and bring the world total to 10,684. (We do not know how many other areas dismissed there as 'minor' have really large reserves which would swell this total further.) The percentage of the iron content of India's reserves to this total is about 32.

No reliable estimates of India's resources in the 'auxiliary'

minerals exist. Manganese and mica exist in quantities not only considerable but important in relation to world resources. Bauxite is said to exist in good quantities in the Central Provinces. Since by the separation of Burma petroleum, lead, zinc, tungsten-ore and copper have practically gone off the list of India's minerals, these are the only three among the chief auxiliary minerals that India can rely upon.

India has no heavy machinery industry. She is almost fully dependent on imports for these producers' goods. An industrial country's self-sufficiency in the basic minerals and a few of the auxiliary ones such as petroleum and manganese, taken together, is expressed in relation to the consumption demands of its heavy machinery industry. So let us imagine that at present India has a heavy machinery industry. Then her position in the basic minerals would be—a sufficient supply of iron ore and a dependence upon imports for coal. Now, of the seven great industrial powers, namely, the United States, Great Britain, Germany, France, Italy, Russia and Japan, the first three are fully self-sufficient in machinery, with an exportable surplus. France's self-sufficiency is nearly full. The last three are more than two-thirds self-sufficient. In relation to these, in coal, the first three countries, Russia and Japan are fully self-sufficient, and France about three-quarters. In iron ore, the United States, France and Russia are fully self-sufficient, Great Britain and Japan more than two-thirds, and Germany only a quarter. In the auxiliary minerals necessary for the heavy machinery industry, the resources in different minerals vary with different countries. But taken together, Russia, the United States and Japan come in order in self-sufficiency. Italy was reserved for separate mention because of these seven countries her self-sufficiency alone is analogous to that of India: She is three-fourths self-sufficient in iron ore, almost fully dependent for coal, and has no petroleum.¹

These countries have built up their heavy machinery industry because of their resources in coal and iron ore. And on account of their position in the great essentials including machinery, they have become not only industrial nations but industrial powers. It may be asked how Germany and Italy which are deficient in one

¹ All this information about the seven countries is drawn from Simonds and Emeny, op. cit.

or other of the basic minerals managed to build up a self-sufficient machinery industry, and on that analogy, why India should not. It must be remembered that these two countries are in that position *at present*, and at present they have already been industrialized in proportion to their joint resources. So, firstly, they could not have been likewise deficient in the supply of the basic minerals when they made a start with the machinery industry since the consumption demands for them must have been very much less at the time; and secondly, even if they were so deficient, the start was made at an early stage of world capitalistic development when the international movements of raw materials were much freer. If now India starts her heavy machinery industry with a co-ordination of her own resources of the basic minerals, she cannot hope to achieve self-sufficiency in it; if she proposes to achieve it through a dependence on imports for coal, the outlook is gloomy in a world rampant with economic nationalism, heading towards national self-sufficiency (both the capitalist and the socialist countries), and guarding particularly the basic and auxiliary minerals that give them security and power in war. It is true that the international movements of minerals "are dependent upon the geographic distribution of the developed deposits and the character of that development in each case and not on the total world reserves or the location of such reserves,"¹ which situation prevents the stoppage of the movements of certain minerals by enactments.¹ To take the case of manganese for example, which is the chief auxiliary mineral in the manufacture of steel, the United States and France are both dependent for it on imports (the former almost fully and the latter fully), according to the present development of their deposits, though potentially the deposits of the United States and the American region admit of full self-sufficiency, and those of France and her colonies half self-sufficiency, expressed in relation to their consumption demands.² So they will have to think twice before imposing embargoes on the export of minerals they produce. By virtue of the important

¹ See C. K. Leith, *World Minerals and World Politics* (1931), Appendix B (A Report of the Committee on Domestic and Foreign Mining Policy of the Mining and Metallurgical Society of America, 1921, and Progress Report of the same, 1925).

² Simonds and Emeny, *op. cit.*

position of India in the present production of manganese, she can take advantage of it to negotiate international agreements to ensure the needed supply of foreign coal. But it is here that the tendency of nations to safeguard the basic minerals comes in, and they would certainly prefer to develop their own potential deposits of manganese. Even if India can force agreements from these and from other countries which have coal but no manganese for steel, such as Great Britain, they will not help her to build up a heavy machinery industry that can carry on for any worth-while period of time. Because the price of imported coal would make the proposition economically absurd.

So it is highly unlikely that India will ever become an industrial power, and consequently an industrial nation such as the United States or Great Britain. The auxiliary minerals may be used to start local industries, but they cannot hope to pioneer an export industrialism.

APPENDIX B

Once in five years the Government of India publishes statistics (covering British India and the Mysore State) of the average yield per acre of most of the crops. The estimate of the average yield of each crop given there "is the average out-turn on average soil in a year of average character, as deduced from the information obtained from experiments made during the period under review." The average for each province in each crop as well as the average for the whole of British India in each crop are given. But the latter is not available for the two periods ending 1901-1902 and 1906-1907; and it is not stated how exactly it is arrived at. But the method by which the provincial averages are arrived at is explained: "The district figure is calculated by averaging the out-turns obtained from all the selected experiments in the district and the provincial average is estimated by multiplying each district out-turn by the area under the crop in each district and dividing the sum of the total out-turns thus arrived at by the total area under the crop in the province." And if we assume that the same method has been adopted in estimating the British Indian average also we may carry the statement further: the British Indian average is estimated by multiplying each provincial out-turn by the area under the crop in each province and dividing the sum of the total out-turns thus arrived at by the total area under the crop in British India. But to calculate the British Indian average by this method for the two periods 1901-1902 and 1906-1907, statistics are wanting. So the figures of average yield for British India given in the publications had to be given up and different ones arrived at. This figure, in the case of each crop, is the average of the average yield in all the provinces growing that crop. This indirect average no doubt lessens the representative character of the figure, but the paucity of material compels such a course. Where in the case of certain crops different yield figures are given for different seasons, autumn, spring, etc., the average of all the seasonal yields is taken.

The quinquennium ending 1901-1902 is taken as the base

period (100). The increase or decrease in the average yield in the case of each crop during the succeeding periods is indicated by index numbers to which they are next reduced. The index for each period on the graph is the average of those of the sixteen crops during that period.

APPENDIX C

Average Yield per Acre (in pounds) of crops, in Foreign Countries and in India—Year 1933

Countries	Rice	Wheat	Barley	Maize	Sugarcane (1932-33)	Cotton	Linseed	Tea	Coffee (1931-32)
United States of America	2,016	649	—	1,254	32,688	216	291	—	—
United Kingdom	—	2,128	1,881	—	—	—	—	—	—
Canada ..	—	649	829	2,061	—	—	—	—	—
Japan ..	3,718	1,590	1,702	1,421	42,560	200	—	1,017	—
Egypt ..	2,688	1,657	1,501	1,971	67,872	466	739	—	—
Argentina	—	941	1,232	1,321	21,504	220	649	—	—
Australia	—	694	963 ^a	1,232 ^a	38,752	—	—	—	—
Denmark	—	2,552	2,419	—	—	—	—	—	—
France ..	—	1,657	1,421	1,142	—	—	291	—	—
Hungary	—	1,456	—	—	—	—	560	—	—
Italy ..	—	1,411	963	1,613	—	—	448	—	—
New Zealand	4,256	1,881	1,702	2,509	—	—	2,240	—	—
Poland ..	—	1,142	1,075	—	—	—	403	—	—
Brazil ..	—	—	—	—	—	304	—	—	438 ^d
Ceylon ..	—	—	—	—	—	—	—	471	—
Mexico ..	—	—	—	—	38,080	—	—	365	338
Dutch East Indies	—	—	—	—	—	—	—	205	723
Cuba ..	—	—	—	—	45,472 ^b	—	—	—	—
Formosa	1,792	—	—	—	58,240	—	—	—	—
Jamaica	—	—	—	—	—	—	—	—	1,731
Java ..	—	—	—	—	107,744	—	—	—	—
Hawaii ..	—	—	—	—	117,824	—	—	—	1,996
Belgium	—	—	—	—	—	—	493	—	—
Colombia	—	—	—	—	—	—	—	—	534
Indo-China	963	—	—	—	20,160	—	—	—	—
India (1933-34)	833	587	806	627	3,312	85	258	469 ^c	189

a 1932.

b 1931-32.

c 1933.

d 1928-29.

APPENDIX D

The following statement illustrates in detail how the amounts of foreign and Indian capital in the table were calculated. In column 1, the classes of companies are classified into the two categories as on page 114. Column 2 gives the number of companies registered and working in India, and 3 their total paid-up capital (in thousands of rupees). Column 4 gives the number of companies incorporated elsewhere than in India, but working in India.

YEAR—1921

1	2	3	4	5
Class of Companies	Number of Indian	Paid-up Capital. Indian	Number of Foreign	Estimate of Paid-up Capital; Foreign (3) divided by (2) and Product multiplied by (4)

CATEGORY A

Chemicals	117	18,216	19	2,945
Iron, Steel & Shipbuilding	50	29,152	21	12,243
Canvas and Rubber ..	7	4,275	6	3,666
Gas, Water, Light, etc...	32	64,233	9	18,063
Clay, Stone, Cement, etc.	114	17,604	1	154
Glass	17	794	5	230
Tobacco	15	41,593	2	5,546
Soap, Candles, etc. ..	19	4,786	2	504
Brass and Copperware ..	10	2,220	—	—
Aluminiumware	3	1,106	—	—
Match	8	413	—	—
Cotton mills	278	251,554	8	7,240
Cotton ginning, etc. ..	131	22,398	2	342
Jute mills	58	135,118	7	16,303
Jute presses, etc. ..	20	6,386	—	—
Paper mills	9	6,091	—	—
Rice mills	58	15,623	—	—
Flour mills	41	9,868	—	—
Saw and Timber mills ..	20	8,146	3	1,221
Oil mills	65	12,969	1	200
Other mills and presses..	14	3,608	3	771
Iron Ore mining	3	35,038	—	—
Sugar mills	40	12,428	2	622
Total A		703,619		

YEAR—1921

1	2	3	4	5
Class of Companies	Number of Indian	Paid-up Capital: Indian	Number of Foreign	Estimate of Paid-up Capital: Foreign (3) divided by (2) and Product multiplied by (4)

CATEGORY B

Coal mining	252	85,222	6	2,028
Gold mining	8	2,293	10	2,870
Stone and Marble ..	17	1,268	2	148
Manganese mining ..	4	772	3	579
Mica mining	14	1,847	1	132
Petroleum	15	22,881	4	6,100
Other mines and quarries	53	17,193	7	2,268
Tea & other plantations..	512	90,647	207	36,639
Engineering	85	34,041	36	14,400
Tanneries and Leather ..	52	9,703	2	372
Mills for Wool, Silk, etc.	23	12,924	—	—
Total B ..		278,791	Total	135,586

Total paid-up capital of

A	B
thousand rupees	thousand rupees
703,619	278,791

a. 80 per cent of A	562,895	c. 75 per cent of B	209,093
b. 20 per cent of A	140,724	d. 25 per cent of B	69,698

Foreign companies (c), 135,586 thousand rupees.

a. 562,895	c. 209,093
d. 69,698	b. 140,724
	e. 135,586

Total—Indian	632,593	Total—Foreign	485,403
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